



PPL companies

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

June 28, 2019

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COMMISSION

LG&E and KU Energy LLC
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.lge-ku.com

Rick E. Lovekamp
Manager - Regulatory
Strategy/Policy
T 502-627-3780
rick.lovekamp@lge-ku.com

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 the Companies' Annual Accounting Information Filing in compliance with the reporting requirements specified in Appendix C, Commitment No. 1.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Rick E. Lovekamp".

Rick E. Lovekamp

Tab	Description
1	Quarterly and Annual LG&E and KU Financial Statements for 2018
2	Transfer of Assets
3	Intercompany Monthly Invoices
4	Intercompany Power Sales and Purchases
5	Costs of Jointly Owned Trimble County Units
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FORM 10-Q

PPL CORP - PPL

Filed: May 03, 2018 (period: March 31, 2018)

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

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 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	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
33-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

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

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

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

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

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

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

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

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

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

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

PPL Corporation	Common stock, \$0.01 par value, 699,042,874 shares outstanding at April 25, 2018.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at April 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 April 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 April 25, 2018.

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

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

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2018

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

PL WPD Limited - an indirect U.K. subsidiary of PPL Global, which carries a liability for a closed defined benefit pension plan and a receivable from WPD plc. Following a reorganization in October 2015 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.

KE - 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.

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

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

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

DNO - Distribution Network Operator in the U.K.

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PIP - 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.

HG(s) - greenhouse gas(es).

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

IBEW - International Brotherhood of Electrical Workers.

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

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

kWh - kilowatt hour, basic unit of electrical energy.

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

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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.

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.

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

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions have been 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.

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RIIO - Ofgem's framework for setting U.K. regulated gas and electric utility price controls which stands for "Revenues = Incentive + Innovation + Outputs."

RIIO-1 refers to the first generation of price controls under the RIIO framework. RIIO-ED1 refers to the RIIO regulatory price control applicable to the operators of U.K. electricity distribution networks, the duration of which is April 2015 through March 2023. RIIO-2 refers to the second generation of price controls under the RIIO framework. RIIO-ED2 refers to the second regulatory price control applicable to the operators of U.K. electricity distribution networks, which will begin in April 2023.

RPI - retail price index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

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.

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.

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

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Forward-looking Information

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

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ew 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 March 31,	
	2018	2017
Operating Revenues	\$ 2,126	\$ 1,951
Operating Expenses		
Operation		
Fuel	214	191
Energy purchases	241	215
Other operation and maintenance	468	470
Depreciation	269	242
Taxes, other than income	83	75
Total Operating Expenses	1,275	1,193
Operating Income	851	758
Other Income (Expense) - net	(43)	(9)
Interest Expense	239	217
Income Before Income Taxes	569	532
Income Taxes	117	129
Net Income	\$ 452	\$ 403
Earnings Per Share of Common Stock:		
Net Income Available to PPL Common Shareowners:		
Basic	\$ 0.65	\$ 0.59
Diluted	\$ 0.65	\$ 0.59
Dividends Declared Per Share of Common Stock	\$ 0.41	\$ 0.395
Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	694,514	680,882
Diluted	695,322	683,084

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 March 31,	
	2018	2017
Net income	\$ 452	\$ 403
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Foreign currency translation adjustments, net of tax of \$0, (\$1)	116	(24)
Qualifying derivatives, net of tax of \$4, \$2	(20)	(6)
Defined benefit plans:		
Net actuarial gain (loss), net of tax of \$0, \$0	(1)	—
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):		
Qualifying derivatives, net of tax of (\$2), \$0	12	(1)
Defined benefit plans:		
Net actuarial (gain) loss, net of tax of (\$9), (\$9)	36	32
Total other comprehensive income	143	1
Comprehensive income	\$ 595	\$ 404

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 452	\$ 403
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	269	242
Amortization	21	23
Defined benefit plans - (income)	(50)	(19)
Deferred income taxes and investment tax credits	59	161
Unrealized losses on derivatives, and other hedging activities	85	35
Stock-based compensation expense	15	19
Other	(3)	(1)
Change in current assets and current liabilities		
Accounts receivable	(71)	(43)
Accounts payable	(36)	(84)
Unbilled revenues	58	52
Fuel, materials and supplies	43	44
Prepayments	(73)	(110)
Taxes payable	22	(21)
Regulatory assets and liabilities, net	64	(17)
Other current liabilities	(120)	(60)
Other	23	22
Other operating activities		
Defined benefit plans - funding	(150)	(520)
Other assets	(30)	5
Other liabilities	(12)	4
Net cash provided by operating activities	<u>566</u>	<u>135</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(750)	(677)
Expenditures for intangible assets	(7)	(3)
Other investing activities	4	1
Net cash used in investing activities	<u>(753)</u>	<u>(679)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	144	64
Issuance of common stock	100	73
Payment of common stock dividends	(273)	(258)
Net increase in short-term debt	369	744
Other financing activities	(9)	(16)
Net cash provided by financing activities	<u>331</u>	<u>607</u>
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	(2)	3
Net Increase in Cash, Cash Equivalents and Restricted Cash	<u>142</u>	<u>66</u>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	511	367
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 653</u>	<u>\$ 433</u>
Supplemental Disclosures of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 313	\$ 236
Accrued expenditures for intangible assets at March 31,	\$ 65	\$ 62

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 629	\$ 485
Accounts receivable (less reserve: 2018, \$56; 2017, \$51)		
Customer	760	681
Other	89	100
Unbilled revenues	489	543
Fuel, materials and supplies	279	320
Prepayments	139	66
Price risk management assets	56	49
Other current assets	49	50
Total Current Assets	2,490	2,294
Property, Plant and Equipment		
Regulated utility plant	38,891	38,228
Less: accumulated depreciation - regulated utility plant	7,003	6,785
Regulated utility plant, net	31,888	31,443
Non-regulated property, plant and equipment	387	384
Less: accumulated depreciation - non-regulated property, plant and equipment	114	110
Non-regulated property, plant and equipment, net	273	274
Construction work in progress	1,575	1,375
Property, Plant and Equipment, net	33,736	33,092
Other Noncurrent Assets		
Regulatory assets	1,519	1,504
Goodwill	3,302	3,258
Other intangibles	703	697
Pension benefit asset	378	284
Price risk management assets	120	215
Other noncurrent assets	140	135
Total Other Noncurrent Assets	6,162	6,093
Total Assets	\$ 42,388	\$ 41,479

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)

	March 31, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,457	\$ 1,080
Long-term debt due within one year	250	348
Accounts payable	836	924
Taxes	128	105
Interest	323	282
Dividends	285	273
Customer deposits	286	292
Regulatory liabilities	158	95
Other current liabilities	515	624
Total Current Liabilities	4,238	4,023
Long-term Debt	20,214	19,847
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,557	2,462
Investment tax credits	128	129
Accrued pension obligations	653	800
Asset retirement obligations	292	312
Regulatory liabilities	2,689	2,704
Other deferred credits and noncurrent liabilities	441	441
Total Deferred Credits and Other Noncurrent Liabilities	6,760	6,848
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	10,411	10,305
Earnings reinvested	4,037	3,871
Accumulated other comprehensive loss	(3,279)	(3,422)
Total Equity	11,176	10,761
Total Liabilities and Equity	\$ 42,388	\$ 41,479

(a) 1,560,000 shares authorized; 697,383 and 693,398 shares issued and outstanding at March 31, 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
December 31, 2017	693,398	\$ 7	\$ 10,305	\$ 3,871	\$ (3,422)	\$ 10,761
Common stock issued	3,985		115			115
Stock-based compensation			(9)			(9)
Net income				452		452
Dividends and dividend equivalents				(286)		(286)
Other comprehensive income (loss)					143	143
March 31, 2018	697,383	\$ 7	\$ 10,411	\$ 4,037	\$ (3,279)	\$ 11,176
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	2,696		97			97
Stock-based compensation			(21)			(21)
Net income				403		403
Dividends and dividend equivalents				(270)		(270)
Other comprehensive income (loss)					1	1
March 31, 2017	682,427	\$ 7	\$ 9,917	\$ 3,962	\$ (3,777)	\$ 10,109

(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 March 31,	
	2018	2017
Operating Revenues	\$ 639	\$ 573
Operating Expenses		
Operation		
Energy purchases	161	146
Other operation and maintenance	133	163
Depreciation	85	75
Taxes, other than income	32	29
Total Operating Expenses	411	413
Operating Income	228	160
Other Income (Expense) - net	6	—
Interest Expense	37	33
Income Before Income Taxes	197	127
Income Taxes	49	48
Net Income (a)	\$ 148	\$ 79

(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)

	Three Months Ended March	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 148	\$ 79
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	85	75
Amortization	6	8
Defined benefit plans - expense	2	5
Deferred income taxes and investment tax credits	21	41
Other	(5)	—
Change in current assets and current liabilities		
Accounts receivable	(30)	(27)
Accounts payable	(36)	(18)
Unbilled revenues	16	12
Prepayments	(69)	(75)
Regulatory assets and liabilities, net	5	(11)
Taxes payable	4	—
Other	(19)	(14)
Other operating activities		
Defined benefit plans - funding	(28)	(24)
Other assets	(25)	5
Other liabilities	1	(1)
Net cash provided by operating activities	<u>76</u>	<u>55</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(245)	(274)
Expenditures for intangible assets	(1)	(2)
Net cash used in investing activities	<u>(246)</u>	<u>(276)</u>
Cash Flows from Financing Activities		
Contributions from parent	—	100
Payment of common stock dividends to parent	(72)	(76)
Net increase in short-term debt	213	204
Net cash provided by financing activities	<u>141</u>	<u>228</u>
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	(29)	7
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	51	15
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 22</u>	<u>\$ 22</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 147	\$ 122

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)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 20	\$ 49
Accounts receivable (less reserve: 2018, \$27; 2017, \$24)		
Customer	328	279
Other	10	71
Accounts receivable from affiliates	42	—
Unbilled revenues	111	127
Materials and supplies	34	34
Prepayments	75	6
Regulatory assets	16	16
Other current assets	12	6
Total Current Assets	648	588
Property, Plant and Equipment		
Regulated utility plant	10,950	10,785
Less: accumulated depreciation - regulated utility plant	2,815	2,778
Regulated utility plant, net	8,135	8,007
Construction work in progress	560	508
Property, Plant and Equipment, net	8,695	8,515
Other Noncurrent Assets		
Regulatory assets	726	709
Intangibles	259	259
Other noncurrent assets	15	11
Total Other Noncurrent Assets	1,000	979
Total Assets	\$ 10,343	\$ 10,082

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)

	March 31, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 213	\$ —
Accounts payable	362	386
Accounts payable to affiliates	32	31
Taxes	12	8
Interest	38	36
Regulatory liabilities	95	86
Other current liabilities	83	98
Total Current Liabilities	835	645
Long-term Debt	3,298	3,298
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,184	1,154
Accrued pension obligations	215	246
Regulatory liabilities	662	668
Other deferred credits and noncurrent liabilities	81	79
Total Deferred Credits and Other Noncurrent Liabilities	2,142	2,147
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	2,729	2,729
Earnings reinvested	975	899
Total Equity	4,068	3,992
Total Liabilities and Equity	\$ 10,343	\$ 10,082

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at March 31, 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
December 31, 2017	66,368	\$ 364	\$ 2,729	\$ 899	\$ 3,992
Net income				148	148
Dividends declared on common stock				(72)	(72)
March 31, 2018	66,368	\$ 364	\$ 2,729	\$ 975	\$ 4,068
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				79	79
Capital contributions from PPL			100		100
Dividends declared on common stock				(76)	(76)
March 31, 2017	66,368	\$ 364	\$ 2,254	\$ 876	\$ 3,494

(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.

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

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2018	2017
Operating Revenues	\$ 872	\$ 809
Operating Expenses		
Operation		
Fuel	214	191
Energy purchases	80	69
Other operation and maintenance	205	205
Depreciation	117	105
Taxes, other than income	17	16
Total Operating Expenses	633	586
Operating Income	239	223
Other Income (Expense) - net	(3)	(4)
Interest Expense	50	49
Interest Expense with Affiliate	5	4
Income Before Income Taxes	181	166
Income Taxes	39	63
Net Income (a)	\$ 142	\$ 103

(a) Net income approximates comprehensive income.

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

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

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 142	\$ 103
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	117	105
Amortization	5	7
Defined benefit plans - expense	3	8
Deferred income taxes and investment tax credits	8	48
Change in current assets and current liabilities		
Accounts receivable	(5)	21
Accounts payable	10	(28)
Accounts payable to affiliates	2	7
Unbilled revenues	31	22
Fuel, materials and supplies	42	41
Taxes payable	7	(2)
Accrued interest	42	42
Other	(7)	(38)
Other operating activities		
Defined benefit plans - funding	(108)	(22)
Expenditures for asset retirement obligations	(9)	(6)
Other assets	(3)	1
Other liabilities	1	3
Net cash provided by operating activities	<u>278</u>	<u>312</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(294)	(184)
Net cash used in investing activities	<u>(294)</u>	<u>(184)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	12	(81)
Issuance of long-term debt	100	—
Distributions to member	(69)	(102)
Net increase (decrease) in short-term debt	(29)	58
Other financing activities	(1)	(1)
Net cash provided by (used in) financing activities	<u>13</u>	<u>(126)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3)</u>	<u>2</u>
Cash and Cash Equivalents at Beginning of Period	30	13
Cash and Cash Equivalents at End of Period	<u>\$ 27</u>	<u>\$ 15</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 124	\$ 75

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

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

(Unaudited)
(Millions of Dollars)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 27	\$ 30
Accounts receivable (less reserve: 2018, \$26; 2017, \$25)		
Customer	247	246
Other	41	44
Accounts receivable from affiliates	1	—
Unbilled revenues	172	203
Fuel, materials and supplies	212	254
Prepayments	28	25
Regulatory assets	12	18
Other current assets	5	8
Total Current Assets	745	828
Property, Plant and Equipment		
Regulated utility plant	13,226	13,187
Less: accumulated depreciation - regulated utility plant	1,866	1,785
Regulated utility plant, net	11,360	11,402
Construction work in progress	775	627
Property, Plant and Equipment, net	12,135	12,029
Other Noncurrent Assets		
Regulatory assets	793	795
Goodwill	996	996
Other intangibles	84	86
Other noncurrent assets	81	68
Total Other Noncurrent Assets	1,954	1,945
Total Assets	\$ 14,834	\$ 14,802

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

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

(Unaudited)
(Millions of Dollars)

	March 31, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 215	\$ 244
Long-term debt due within one year	—	98
Notes payable with affiliates	237	225
Accounts payable	292	338
Accounts payable to affiliates	9	7
Customer deposits	59	58
Taxes	73	66
Price risk management liabilities	4	4
Regulatory liabilities	63	9
Interest	74	32
Asset retirement obligations	91	85
Other current liabilities	94	161
Total Current Liabilities	1,211	1,327
Long-term Debt		
Long-term debt	4,859	4,661
Long-term debt to affiliate	400	400
Total Long-term Debt	5,259	5,061
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	882	866
Investment tax credits	128	129
Price risk management liabilities	18	22
Accrued pension obligations	265	365
Asset retirement obligations	249	271
Regulatory liabilities	2,027	2,036
Other deferred credits and noncurrent liabilities	158	162
Total Deferred Credits and Other Noncurrent Liabilities	3,727	3,851
Commitments and Contingent Liabilities (Notes 7 and 10)		
Member's Equity	4,637	4,563
Total Liabilities and Equity	\$ 14,834	\$ 14,802

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

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

(Unaudited)
(Millions of Dollars)

	Member's Equity
December 31, 2017	\$ 4,563
Net income	142
Distributions to member	(69)
Other comprehensive income	1
March 31, 2018	\$ 4,637
December 31, 2016	\$ 4,667
Net income	103
Distributions to member	(102)
Other comprehensive income	2
March 31, 2017	\$ 4,670

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

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CONDENSED STATEMENTS OF INCOME
Couisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended March	
	31,	
	2018	2017
Operating Revenues		
Retail and wholesale	\$ 407	\$ 374
Electric revenue from affiliate	12	17
Total Operating Revenues	419	391
Operating Expenses		
Operation		
Fuel	79	80
Energy purchases	76	64
Energy purchases from affiliate	6	2
Other operation and maintenance	89	85
Depreciation	48	44
Taxes, other than income	9	8
Total Operating Expenses	307	283
Operating Income	112	108
Other Income (Expense) -net	(1)	(4)
Interest Expense	18	17
Income Before Income Taxes	93	87
Income Taxes	21	33
Net Income (a)	\$ 72	\$ 54

(a) Net income equals comprehensive income.

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

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CONDENSED STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended March	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 72	\$ 54
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	48	44
Amortization	4	3
Defined benefit plans - expense	1	2
Deferred income taxes and investment tax credits	7	31
Change in current assets and current liabilities		
Accounts receivable	2	13
Accounts receivable from affiliates	(7)	1
Accounts payable	8	(12)
Accounts payable to affiliates	(2)	(4)
Unbilled revenues	16	9
Fuel, materials and supplies	36	33
Taxes payable	(1)	(28)
Accrued interest	13	13
Other	12	(11)
Other operating activities		
Defined benefit plans - funding	(55)	(1)
Expenditures for asset retirement obligations	(5)	(4)
Other assets	—	2
Other liabilities	(3)	(3)
Net cash provided by operating activities	146	142
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(150)	(94)
Net cash used in investing activities	(150)	(94)
Cash Flows from Financing Activities		
Issuance of long-term debt	100	—
Net increase (decrease) in short-term debt	(62)	38
Payment of common stock dividends to parent	(34)	(87)
Other financing activities	(1)	—
Net cash provided by (used in) financing activities	3	(49)
Net Decrease in Cash and Cash Equivalents	(1)	(1)
Cash and Cash Equivalents at Beginning of Period	15	5
Cash and Cash Equivalents at End of Period	\$ 14	\$ 4
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 75	\$ 34

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

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CONDENSED BALANCE SHEETS
Couisville Gas and Electric Company

(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 14	\$ 15
Accounts receivable (less reserve: 2018, \$1; 2017, \$1)		
Customer	111	116
Other	14	13
Unbilled revenues	75	91
Accounts receivable from affiliates	31	24
Fuel, materials and supplies	95	131
Prepayments	12	11
Regulatory assets	10	12
Other current assets	1	3
Total Current Assets	363	416
Property, Plant and Equipment		
Regulated utility plant	5,597	5,587
Less: accumulated depreciation - regulated utility plant	646	614
Regulated utility plant, net	4,951	4,973
Construction work in progress	401	305
Property, Plant and Equipment, net	5,352	5,278
Other Noncurrent Assets		
Regulatory assets	406	411
Goodwill	389	389
Other intangibles	51	53
Other noncurrent assets	26	12
Total Other Noncurrent Assets	872	865
Total Assets	\$ 6,587	\$ 6,559

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

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CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 137	\$ 199
Long-term debt due within one year	—	98
Accounts payable	170	179
Accounts payable to affiliates	21	23
Customer deposits	28	27
Taxes	24	25
Price risk management liabilities	4	4
Regulatory liabilities	29	3
Interest	24	11
Asset retirement obligations	19	24
Other current liabilities	34	52
Total Current Liabilities	490	645
Long-term Debt	1,808	1,611
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	582	572
Investment tax credits	35	35
Price risk management liabilities	18	22
Accrued pension obligations	—	45
Asset retirement obligations	92	97
Regulatory liabilities	912	919
Other deferred credits and noncurrent liabilities	85	86
Total Deferred Credits and Other Noncurrent Liabilities	1,724	1,776
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,712	1,712
Earnings reinvested	429	391
Total Equity	2,565	2,527
Total Liabilities and Equity	\$ 6,587	\$ 6,559

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

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

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CONDENSED STATEMENTS OF EQUITY
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2017	21,294	\$ 424	\$ 1,712	\$ 391	\$ 2,527
Net income				72	72
Cash dividends declared on common stock				(34)	(34)
March 31, 2018	21,294	\$ 424	\$ 1,712	\$ 429	\$ 2,565
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				54	54
Cash dividends declared on common stock				(87)	(87)
March 31, 2017	21,294	\$ 424	\$ 1,682	\$ 337	\$ 2,443

(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 March 31,	
	2018	2017
Operating Revenues		
Retail and wholesale	\$ 465	\$ 435
Electric revenue from affiliate	6	2
Total Operating Revenues	471	437
Operating Expenses		
Operation		
Fuel	135	111
Energy purchases	4	5
Energy purchases from affiliate	12	17
Other operation and maintenance	105	108
Depreciation	68	60
Taxes, other than income	8	8
Total Operating Expenses	332	309
Operating Income	139	128
Other Income (Expense) - net	(3)	(2)
Interest Expense	25	24
Income Before Income Taxes	111	102
Income Taxes	24	39
Net Income (a)	\$ 87	\$ 63

(a) Net income approximates comprehensive income.

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

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CONDENSED STATEMENTS OF CASH FLOWS
Kentucky Utilities Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 87	\$ 63
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	68	60
Amortization	1	4
Defined benefit plans - expense	—	2
Deferred income taxes and investment tax credits	1	37
Change in current assets and current liabilities		
Accounts receivable	(7)	8
Accounts payable	11	(4)
Accounts payable to affiliates	—	(7)
Unbilled revenues	15	13
Fuel, materials and supplies	6	8
Taxes payable	14	(34)
Accrued interest	22	22
Other	17	(12)
Other operating activities		
Defined benefit plans - funding	(47)	(19)
Expenditures for asset retirement obligations	(4)	(2)
Other assets	(3)	(1)
Other liabilities	4	1
Net cash provided by operating activities	185	139
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(143)	(89)
Net cash used in investing activities	(143)	(89)
Cash Flows from Financing Activities		
Payment of common stock dividends to parent	(79)	(70)
Net increase in short-term debt	33	20
Net cash used in financing activities	(46)	(50)
Net Decrease in Cash and Cash Equivalents	(4)	—
Cash and Cash Equivalents at Beginning of Period	15	7
Cash and Cash Equivalents at End of Period	\$ 11	\$ 7
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at March 31,	\$ 48	\$ 41

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

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CONDENSED BALANCE SHEETS
Kentucky Utilities Company

(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 11	\$ 15
Accounts receivable (less reserve: 2018, \$2; 2017, \$1)		
Customer	136	130
Other	26	30
Unbilled revenues	97	112
Fuel, materials and supplies	117	123
Prepayments	14	14
Regulatory assets	2	6
Other current assets	4	5
Total Current Assets	407	435
Property, Plant and Equipment		
Regulated utility plant	7,620	7,592
Less: accumulated depreciation - regulated utility plant	1,218	1,170
Regulated utility plant, net	6,402	6,422
Construction work in progress	373	321
Property, Plant and Equipment, net	6,775	6,743
Other Noncurrent Assets		
Regulatory assets	387	384
Goodwill	607	607
Other intangibles	33	33
Other noncurrent assets	67	52
Total Other Noncurrent Assets	1,094	1,076
Total Assets	\$ 8,276	\$ 8,254

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)

	March 31, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 78	\$ 45
Accounts payable	109	137
Accounts payable to affiliates	54	53
Customer deposits	31	31
Taxes	33	19
Regulatory liabilities	34	6
Interest	38	16
Asset retirement obligations	72	61
Other current liabilities	30	46
Total Current Liabilities	479	414
Long-term Debt	2,329	2,328
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	696	691
Investment tax credits	93	94
Accrued pension obligations	—	36
Asset retirement obligations	157	174
Regulatory liabilities	1,115	1,117
Other deferred credits and noncurrent liabilities	42	43
Total Deferred Credits and Other Noncurrent Liabilities	2,103	2,155
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,616	2,616
Earnings reinvested	441	433
Total Equity	3,365	3,357
Total Liabilities and Equity	\$ 8,276	\$ 8,254

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

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

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CONDENSED STATEMENTS OF EQUITY
Kentucky Utilities Company

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2017	37,818	\$ 308	\$ 2,616	\$ 433	\$ —	\$ 3,357
Net income				87		87
Cash dividends declared on common stock				(79)		(79)
March 31, 2018	37,818	\$ 308	\$ 2,616	\$ 441	\$ —	\$ 3,365
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				63		63
Cash dividends declared on common stock				(70)		(70)
Other comprehensive income (loss)					1	1
March 31, 2017	37,818	\$ 308	\$ 2,616	\$ 393	\$ —	\$ 3,317

(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)

Interim Financial Statements

(All Registrants)

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

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 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 months ended March 31, 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 indicated Registrant's 2017 Form 10-K and should be read in conjunction with those disclosures.

New Accounting Guidance Adopted *(All Registrants)*

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 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 as a result of 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.

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For PPL, the non-service cost components of net periodic benefit costs are in a net credit position for the three months ended March 31, 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 \$4 million (\$4 million after-tax or \$0.01 per share) for the three months ended March 31, 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	
	2018	2017
PPL	\$ 68	\$ 38
PPL Electric	2	(1)
LKE	2	(2)
LG&E	1	(2)
KU	1	(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.

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	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 629	\$ 485	\$ 20	\$ 49
Restricted cash - current (a)	3	3	2	2
Restricted cash - noncurrent (a)	21	23	—	—
Total Cash, Cash Equivalents and Restricted Cash	\$ 653	\$ 511	\$ 22	\$ 51

(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."

Segment and Related Information

(PL)

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 March 31 are as follows:

	Three Months	
	2018	2017
Operating Revenues from external customers		
U.K. Regulated	\$ 615	\$ 568
Kentucky Regulated	872	809
Pennsylvania Regulated	639	573
Corporate and Other	—	1
Total	\$ 2,126	\$ 1,951
Net Income		
U.K. Regulated (a)	\$ 197	\$ 286
Kentucky Regulated	133	95
Pennsylvania Regulated	148	79
Corporate and Other	(26)	(57)
Total	\$ 452	\$ 403

(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:

	March 31,	December 31,
	2018	2017
Assets		
U.K. Regulated (a)	\$ 17,444	\$ 16,813
Kentucky Regulated	14,500	14,468
Pennsylvania Regulated	10,356	10,082
Corporate and Other (b)	88	116
Total	\$ 42,388	\$ 41,479

(a) Includes \$12.9 billion and \$12.5 billion of net PP&E as of March 31, 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 and the elimination of inter-segment transactions.

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

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

4. 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.

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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 the volume 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 actual 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.

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 primarily 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

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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 or 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 primarily have no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with these customers.

(All Registrants)

The following table reconciles "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the period ended March 31, 2018.

	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 2,126	\$ 639	\$ 872	\$ 419	\$ 471
Revenues derived from:					
Alternative revenue programs (b)	32	2	30	14	16
Other (c)	(16)	(4)	(5)	(1)	(4)
Revenues from Contracts with Customers	\$ 2,142	\$ 637	\$ 897	\$ 432	\$ 483

- (a) PPL includes \$615 million 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 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 3, 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 \$532 million and \$105 million for the three months ended March 31, 2018.

The following table shows revenues from contracts with customers disaggregated by customer class for the period ended March 31, 2018.

	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 584	\$ —	\$ —	\$ —	\$ —
Residential	804	408	396	197	199
Commercial	325	98	227	124	103
Industrial	155	13	142	44	98
Other (b)	105	13	68	31	37
Wholesale - municipal	30	—	30	—	30
Wholesale - other (c)	34	—	34	36	16
Transmission	105	105	—	—	—
Revenues from Contracts with Customers	\$ 2,142	\$ 637	\$ 897	\$ 432	\$ 483

- (a) Represents customers of WPD.
- (b) Primarily includes revenues from pole attachments, street lighting and other public authorities.
- (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.

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

The following table shows the accounts receivable balances that were impaired for the period ended March 31, 2018.

	Three Months	
PPL	\$	10
PPL Electric		7
LKE		2
LG&E		1
KU		1

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

	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities as of December 31, 2017	\$ 29	\$ 19	\$ 8	\$ 4	\$ 4
Contract liabilities as of March 31, 2018	20	11	7	3	4
Revenue recognized during the period that was included in the opening contract liability balance	17	8	8	4	4

Contract liabilities result from recording contractual billings in advance for customer attachments to the Registrants' infrastructure and payments received in excess of revenues earned to date. Advanced billings for customer attachments are recognized as revenue ratably over the billing period. Payments received in excess of revenues earned to date are recognized as revenue as electricity is delivered in subsequent periods.

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.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended March 31 used in the EPS calculation are:

	Three Months	
	2018	2017
Income (Numerator)		
Net income	\$ 452	\$ 403
Less amounts allocated to participating securities	1	1
Net income available to PPL common shareowners - Basic and Diluted	\$ 451	\$ 402
Shares of Common Stock (Denominator)		
Weighted-average shares - Basic EPS	694,514	680,882
Add incremental non-participating securities:		
Share-based payment awards	808	2,202
Weighted-average shares - Diluted EPS	695,322	683,084

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	Three Months	
	2018	2017
Basic EPS		
Net Income available to PPL common shareowners	\$ 0.65	\$ 0.59
Diluted EPS		
Net Income available to PPL common shareowners	\$ 0.65	\$ 0.59

For the periods ended March 31, PPL issued common stock related to stock-based compensation plans and the DRIP as follows (in thousands):

	Three Months	
	2018	2017
Stock-based compensation plans (a)	476	887
DRIP	485	445

(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.

For the periods ended March 31, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive:

	Three Months	
	2018	2017
Stock options	230	696
Restricted stock units	20	—

6. Income Taxes

Reconciliations of income taxes for the periods ended March 31 are as follows.

(PPL)

	Three Months	
	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 119	\$ 186
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	15	13
Valuation allowance adjustments	7	5
Impact of lower U.K. income tax rates relative to U.S. income tax rates (a)	(7)	(48)
U.S. income tax on foreign earnings - net of foreign tax credit (a) (b)	1	(9)
Impact of the U.K. Finance Acts	(1)	(3)
Depreciation and other items not normalized (a)	(12)	(3)
Interest benefit on U.K. financing entities	(5)	(4)
Stock-based compensation	1	(3)
Other	(1)	(5)
Total increase (decrease)	(2)	(57)
Total income taxes	\$ 117	\$ 129

(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.

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(PL Electric)

	Three Months	
	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 41	\$ 44
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	15	8
Depreciation and other items not normalized (a)	(7)	(2)
Stock-based compensation	—	(2)
Total increase (decrease)	8	4
Total income taxes	\$ 49	\$ 48

(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	
	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 38	\$ 58
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	8	6
Amortization of excess deferred income taxes (a)	(5)	—
Other	(2)	(1)
Total increase (decrease)	1	5
Total income taxes	\$ 39	\$ 63

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

(LG&E)

	Three Months	
	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 20	\$ 30
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	4	3
Amortization of excess deferred income taxes (a)	(2)	—
Other	(1)	—
Total increase (decrease)	1	3
Total income taxes	\$ 21	\$ 33

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

(KU)

	Three Months	
	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 23	\$ 36
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	5	4
Amortization of excess deferred income taxes (a)	(3)	—
Other	(1)	(1)
Total increase (decrease)	1	3
Total income taxes	\$ 24	\$ 39

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

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Kentucky Tax Reform

(All Registrants)

On April 14, 2018, the Kentucky House of Representatives and Kentucky Senate passed House Bill 487 (HB 487). HB 487 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. HB 487 became law on April 27, 2018. LKE continues to evaluate the impacts of Kentucky tax reform, but expects to incur a deferred tax charge of approximately \$9 million in the second quarter of 2018 associated with the remeasurement of 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 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 over a period of time. LG&E and KU currently estimate the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, to be an increase in regulatory liabilities of \$16 million and \$19 million. LG&E and KU continue to evaluate other impacts of Kentucky tax reform along with the associated regulatory considerations. 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	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Current Regulatory Assets:				
Environmental cost recovery	\$ —	\$ 5	\$ —	\$ —
Generation formula rate	2	6	—	—
Smart meter rider	15	15	15	15
Plant outage costs	6	3	—	—
Other	5	5	1	1
Total current regulatory assets (a)	\$ 28	\$ 34	\$ 16	\$ 16
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 866	\$ 880	\$ 496	\$ 504
Taxes recoverable through future rates	3	3	3	3
Storm costs (b)	47	33	17	—
Unamortized loss on debt	51	54	27	29
Interest rate swaps	22	26	—	—
Terminated interest rate swaps	91	92	—	—
Accumulated cost of removal of utility plant	176	173	176	173
AROs	247	234	—	—
Act 129 compliance rider	7	—	7	—
Other	9	9	—	—
Total noncurrent regulatory assets	\$ 1,519	\$ 1,504	\$ 726	\$ 709

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	PPL		PPL Electric			
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017		
Current Regulatory Liabilities:						
Generation supply charge	\$ 33	\$ 34	\$ 33	\$ 34		
Transmission service charge	16	9	16	9		
Environmental cost recovery	18	1	—	—		
Universal service rider	24	26	24	26		
Transmission formula rate	10	9	10	9		
Fuel adjustment clause	2	3	—	—		
TCJA bill credit (c)	34	—	—	—		
Storm damage expense rider	12	8	12	8		
Other	9	5	—	—		
Total current regulatory liabilities	\$ 158	\$ 95	\$ 95	\$ 86		
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 677	\$ 677	\$ —	\$ —		
Power purchase agreement - OVEC (d)	66	68	—	—		
Net deferred taxes (e)	1,839	1,853	660	668		
Defined benefit plans	28	27	—	—		
Terminated interest rate swaps	74	74	—	—		
Other	5	5	2	—		
Total noncurrent regulatory liabilities	\$ 2,689	\$ 2,704	\$ 662	\$ 668		
Current Regulatory Assets:						
	LKE		LG&E		KU	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Environmental cost recovery	\$ —	\$ 5	\$ —	\$ 5	\$ —	\$ —
Generation formula rate	2	6	—	—	2	6
Plant outage costs	6	3	6	3	—	—
Other	4	4	4	4	—	—
Total current regulatory assets	\$ 12	\$ 18	\$ 10	\$ 12	\$ 2	\$ 6
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 370	\$ 376	\$ 230	\$ 234	\$ 140	\$ 142
Storm costs	30	33	16	18	14	15
Unamortized loss on debt	24	25	15	16	9	9
Interest rate swaps	22	26	22	26	—	—
Terminated interest rate swaps	91	92	53	54	38	38
AROs	247	234	67	61	180	173
Other	9	9	3	2	6	7
Total noncurrent regulatory assets	\$ 793	\$ 795	\$ 406	\$ 411	\$ 387	\$ 384

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	LKE		LG&E		KU	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
Current Regulatory Liabilities:						
Environmental cost recovery	\$ 18	\$ 1	\$ 7	\$ —	\$ 11	\$ 1
Fuel adjustment clause	2	3	—	—	2	3
Gas line tracker	2	3	2	3	—	—
TCJA bill credit (c)	34	—	16	—	18	—
Other	7	2	4	—	3	2
Total current regulatory liabilities	\$ 63	\$ 9	\$ 29	\$ 3	\$ 34	\$ 6
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 677	\$ 677	\$ 280	\$ 282	\$ 397	\$ 395
Power purchase agreement - OVEC (d)	66	68	46	47	20	21
Net deferred taxes (e)	1,179	1,185	549	552	630	633
Defined benefit plans	28	27	—	—	28	27
Terminated interest rate swaps	74	74	37	37	37	37
Other	3	5	—	1	3	4
Total noncurrent regulatory liabilities	\$ 2,027	\$ 2,036	\$ 912	\$ 919	\$ 1,115	\$ 1,117

- (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 customers as a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, effective January 1, 2018, not yet reflected in customer rates.
 (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.

Regulatory Matters

Kentucky Activities

(PPL, LKE, LG&E and KU)

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 full deployment is expected to be completed in 2021 with estimated capital costs of \$155 million and \$104 million for KU and LG&E electric service and \$62 million for LG&E gas service. The full Advanced Metering Systems deployment is expected to result in incremental operation and maintenance costs during the deployment phase of \$17 million and \$11 million for KU and LG&E electric service and \$3 million for LG&E gas service.

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. The savings will be distributed through their ECR, DSM and LG&E's GLT rate mechanisms beginning in March 2018 and through a new bill credit mechanism

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From April 1, 2018 through April 30, 2019. 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. Ongoing tax savings are expected to also be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 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 March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issue related to the TCJA. A hearing on this matter is scheduled for May 24, 2018.

LG&E and KU cannot predict the outcome of these proceedings.

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 ongoing rate case in Virginia. New rates, inclusive of TCJA impacts, will be effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect will be addressed through KU's annual information filing for calendar year 2018. The settlement agreement is subject to review and approval by the VSCC. On April 16, 2018, the hearing examiner issued a report recommending that the VSCC approve 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.

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PL and PPL Electric

Pennsylvania Activities

TCJA Impact on PPL Electric Rates

The PUC issued a Secretarial Letter on February 12, 2018 regarding the TCJA, 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 which will remain in effect for up to six months and may be extended for an additional six months. The PUC anticipates that the process to determine the manner in which rates will be adjusted in response to the TCJA will require further review and analysis of the responses to data requests, financial information and public comments submitted in response to the Secretarial Letter. For the period ended March 31, 2018, PPL Electric has not recorded an accrual with respect to any potential rate adjustment due to the adoption of the TCJA, as PPL Electric believes it is not probable that a loss has been incurred. Under applicable law, it is reasonably possible that the PUC could seek to adjust rates as of March 15, 2018, the date of the Temporary Rates Order. In that case, PPL Electric's estimated maximum loss exposure would be the excess amounts collected in customer rates related to applicable federal income taxes since the date of the Temporary Rates Order, which amount is immaterial as of March 31, 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. In a news release issued the same day, the FERC acknowledged that many transmission rates automatically adjust with changes in the tax rates and the adjustments for much of the industry are already taking place. PPL Electric has not made any submission in response to the Notice of Inquiry. On March 16, 2018, PPL Electric filed a waiver pursuant to Rule 207(a) (5) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission with the FERC to request the incorporation of the changes to the federal income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA reduction in the federal income tax rate 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, which was inclusive of the federal income tax rate as set by the TCJA, on April 27, 2018.

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 months ended March 31, 2018 and 2017, PPL Electric purchased \$376 million and \$356 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:

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	March 31, 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	
PPL								
U.K.								
WPD plc								
Syndicated Credit Facility (a)	Jan. 2022	£ 210	£ 145	£ —	£ 67	£ 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	157	—	143	180	—	
WPD (West Midlands)								
Syndicated Credit Facility (d)	July 2021	300	65	—	235	120	—	
Uncommitted Credit Facilities		130	—	4	126	—	4	
Total U.K. Credit Facilities (e)		£ 1,315	£ 497	£ 4	£ 816	£ 448	£ 4	
U.S.								
PPL Capital Funding								
Syndicated Credit Facility	Jan. 2023	\$ 950	\$ —	\$ 345	\$ 605	\$ —	\$ 230	
Syndicated Credit Facility	Nov. 2018	300	—	—	300	—	—	
Bilateral Credit Facility	Mar. 2019	100	—	24	76	—	18	
Total PPL Capital Funding Credit Facilities		\$ 1,350	\$ —	\$ 369	\$ 981	\$ —	\$ 248	
P.L Electric								
Syndicated Credit Facility	Jan. 2023	\$ 650	\$ —	\$ 214	\$ 436	\$ —	\$ 1	
LKE								
Syndicated Credit Facility	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ —	\$ —	
LG&E								
Syndicated Credit Facility	Jan. 2023	\$ 500	\$ —	\$ 137	\$ 363	\$ —	\$ 199	
Term Loan Credit Facility	Oct. 2019	200	200	—	—	100	—	
Total LG&E Credit Facilities		\$ 700	\$ 200	\$ 137	\$ 363	\$ 100	\$ 199	
KU								
Syndicated Credit Facility	Jan. 2023	\$ 400	\$ —	\$ 78	\$ 322	\$ —	\$ 45	
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 276	\$ 322	\$ —	\$ 243	

- (a) The amounts borrowed at March 31, 2018 and December 31, 2017 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 2.47% and 2.17%. The unused capacity reflects the amount borrowed in GBP of £143 million as of the date borrowed.
- (b) The amount borrowed at March 31, 2018 was a GBP-denominated borrowing which equated to \$179 million and bore interest at 1.77%.
- (c) The amounts borrowed at March 31, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$216 million and \$244 million and bore interest at 0.90% and 0.89%.
- (d) The amounts borrowed at March 31, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$89 million and \$162 million and bore interest at 0.90% and 0.89%.
- (e) At March 31, 2018, the unused capacity under the U.K. credit facilities was \$1.1 billion.

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In January 2018, LG&E borrowed the remaining \$100 million available under its \$200 million term loan facility. The proceeds were used to repay short-term debt and for general corporate purposes.

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:

	March 31, 2018			December 31, 2017		
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	2.44%	\$ 1,000	\$ 345	\$ 655	1.64%	\$ 230
PPL Electric	2.42%	650	213	437		—
LG&E	2.23%	350	137	213	1.83%	199
KU	2.35%	350	78	272	1.97%	45
Total		\$ 2,350	\$ 773	\$ 1,577		\$ 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.

(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 with a PPL Energy Funding subsidiary. See Note 11 for more information related to intercompany borrowings.

(PPL)

ATM Program

In February 2018, PPL entered into a distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of \$1.0 billion of its common stock. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares sold with respect to the equity distribution agreement. PPL issued 3.0 million shares of common stock and received gross proceeds of \$85 million for the three months ended March 31, 2018.

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distributions

In February 2018, PPL declared a quarterly common stock dividend, payable April 2, 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 its subsidiaries, and LG&E for the periods ended March 31:

	Pension Benefits			
	Three Months			
	U.S.		U.K.	
	2018	2017	2018	2017
PPL				
Service cost	\$ 16	\$ 17	\$ 21	\$ 19
Interest cost	39	42	47	43
Expected return on plan assets	(62)	(57)	(150)	(125)
Amortization of:				
Prior service cost	2	2	—	—
Actuarial loss	22	20	39	35
Net periodic defined benefit costs (credits) before settlements and special termination benefits	17	24	(43)	(28)
Special termination benefits (a)	—	2	—	—
Net periodic defined benefit costs (credits)	\$ 17	\$ 26	\$ (43)	\$ (28)

Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

	Pension Benefits	
	Three Months	
	2018	2017
LKE		
Service cost	\$ 7	\$ 7
Interest cost	16	16
Expected return on plan assets	(26)	(22)
Amortization of:		
Prior service cost	2	2
Actuarial loss (a)	10	11
Net periodic defined benefit costs	\$ 9	\$ 14

(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 \$4 million and \$5 million for the three months ended March 31, 2018 and 2017. This difference is recorded as a regulatory asset.

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	Pension Benefits	
	Three Months	
	2018	2017
LG&E		
Interest cost	\$ 3	\$ 3
Expected return on plan assets	(5)	(5)
Amortization of:		
Prior service cost	1	1
Actuarial loss (a)	2	3
Net periodic defined benefit costs	\$ 1	\$ 2

(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 three months ended March 31, 2018 and 2017. This difference is recorded as a regulatory asset.

	Other Postretirement Benefits	
	Three Months	
	2018	2017
PPL		
Service cost	\$ 1	\$ 2
Interest cost	3	6
Expected return on plan assets	(4)	(6)
Amortization of prior service cost	(1)	—
Net periodic defined benefit costs (credits)	\$ (1)	\$ 2

LKE		
Service cost	\$ 1	\$ 1
Interest cost	2	2
Expected return on plan assets	(2)	(1)
Net periodic defined benefit costs	\$ 1	\$ 2

(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 March 31, 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	
	2018	2017
PPL Electric	\$ 4	\$ 8
LG&E	2	3
KU	1	4

(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 loss) are presented in "Other Income (Expense) - net" on the Statements of Income. See Note 12 for details.

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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.

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

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act, 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 had three coal-fired units retired 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 District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E. On April 13, 2017, the federal District Court issued an order declining to exercise supplemental jurisdiction on the state law claims and dismissed the case in its entirety. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, 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 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 for the Eastern District of Kentucky 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. 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. PPL, LKE and KU cannot predict the outcome of these matters and an estimate or range of possible losses cannot be determined.

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.

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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.

(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 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

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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 non-attainment. The EPA was scheduled to designate areas as being in attainment or nonattainment of the current ozone standard by no later than October 2017 which was to be followed by further regulatory proceedings identifying compliance measures and deadlines. However, the current implementation and compliance schedule is uncertain because the EPA failed to make nonattainment 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, are evaluating the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. Although PPL, LKE, LG&E and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross State Air Pollution Rule.

Sulfur Dioxide

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

Climate Change

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

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's 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

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and KU cannot predict the outcome of such regulatory actions or the impact, if any, on plant operations, rate treatment or future capital or operating needs.

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

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

There continues to be uncertainty about the EPA's regulation of existing coal-fired power plants. In 2015 the EPA had finalized rules imposing GHG emission standards for both new and existing power plants and had 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).

Following legal challenges to the 2015 EPA Rules, a stay of those rules by the U.S. Supreme Court and the March 2017 Executive Order requiring the EPA to review the 2015 EPA Rules, in October 2017, the EPA proposed to rescind the 2015 EPA Rules and, in December 2017, released an advanced notice of proposed rulemaking for a replacement (Replacement Rules) which contemplates GHG reductions based on "inside the fence" measures implemented at individual plants. The contemplated approach in the Replacement Rules is a more limited approach than that taken in the 2015 EPA Rules which had included assumed increased levels of fuel switching and renewable energy in determining the level of emission reduction required by each state. At present, the 2015 EPA Rules remain stayed and the Replacement Rules have not yet been published.

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 consistent with the EPA's notice of proposed rulemaking on the Replacement Rules.

LG&E and KU are monitoring developments at the state and federal level. Until there is more clarity about the potential requirements that may be imposed under the Replacement Rules and Kentucky's implementation plan, 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,

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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. PPL, LKE, LG&E and KU are unable to predict the outcome of the proposed rulemaking or potential impacts on current LG&E and KU compliance plans, revisions to the current rule could potentially result in additional costs.

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. A hearing related to this matter is set for June 21, 2018. KU is unable to predict the outcome of this matter but does not anticipate that it will have a material effect on its financial condition or results of operations.

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 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.

In 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

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consolidated before the U.S. Court of Appeals for the Fifth Circuit. In April 2017, the EPA announced that it would grant petitions for reconsideration of the rule. In September 2017, the EPA published in the Federal Register a proposed rule that would postpone the compliance date for requirements relating to bottom ash transport waters and scrubber wastewaters discharge limits. The EPA expects to complete its reconsideration of best available technology standards by the fall of 2020. Upon completion of the ongoing regulatory proceedings, the rule will be implemented by the states in the course of their normal permitting activities. LG&E and KU are developing compliance strategies and schedules. PPL, LKE, LG&E and KU are unable to predict the outcome of the EPA's pending reconsideration of the rule or fully estimate compliance costs or timing. Additionally, certain aspects of these compliance plans and estimates relate to developments in state water quality standards, which are separate from the ELG rule or its implementation. Costs to comply with ELGs or other discharge limits, which are expected to be significant, are subject to rate recovery.

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. 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 a review of part two later in 2018.

Superfund and Other Remediation

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

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

There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates. PPL Electric, LG&E and KU lack sufficient information 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.

As of March 31, 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 above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former

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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.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be 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

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 March 31, 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 March 31, 2018 was \$7 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.

	Exposure at March 31, 2018	Expiration Date
PPL		
Indemnifications related to the WPD Midlands acquisition		(a)
WPD indemnifications for entities in liquidation and sales of assets	\$ 11	(b) 2020
WPD guarantee of pension and other obligations of unconsolidated entities	99	(c)
PPL Electric		
Guarantee of inventory value	17	(d) 2020
LKE		
Indemnification of lease termination and other divestitures	201	(e) 2021
LG&E and KU		
LG&E and KU guarantee of shortfall related to OVEC		(f)

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- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits. In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters or have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Additionally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.
- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At March 31, 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 \$117 million at March 31, 2018, consisting of LG&E's share of \$81 million and KU's share of \$36 million. The maximum exposure and the expiration date of these potential obligations are not presently determinable. See "Energy Purchase Commitments" in Note 13 in PPL's, LKE's, LG&E's and KU's 2017 Form 10-K for additional information on the OVEC power purchase contract. In connection with recent credit market related developments at OVEC or certain of its sponsors, such parties, including LG&E and KU, are analyzing certain potential additional credit support actions to preserve OVEC's access to credit markets or mitigate risks or adverse impacts relating thereto, including increased interest costs. The ultimate outcome of these matters, including any potential impact on LG&E's and KU's obligations relating to OVEC debt under the power purchase contract cannot be predicted.

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

P, 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 March 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

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	Three Months	
	2018	2017
PPL Electric from PPL Services	\$ 16	\$ 51
LKE from PPL Services	7	6
PPL Electric from PPL EU Services	35	18
LG&E from LKS	38	44
KU from LKS	42	44

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 \$400 million revolving line of credit with a PPL Electric subsidiary. No balance was outstanding at March 31, 2018 and December 31, 2017. The interest rates on borrowings are equal to one-month LIBOR plus a spread.

(LKE)

LKE maintains a 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 February 2018, the revolving line of credit was increased by \$25 million and the limit as of March 31, 2018 was \$300 million. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At March 31, 2018 and December 31, 2017, \$237 million and \$225 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rates on the outstanding borrowing at March 31, 2018 and December 31, 2017 were 3.17% and 2.87%.

LKE maintains a \$400 million ten-year note with a PPL affiliate with an interest rate of 3.5%. At March 31, 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 for the three months ending March 31, 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. The proceeds were used to repay its outstanding notes payable with a PPL Energy Funding subsidiary.

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

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

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Other Income (Expense) - net

(PPL)

The details of "Other Income (Expense) - net" for the three months ended March 31, were:

	PPL	
	2018	2017
Other Income		
Defined benefit plans - non-service credits (Note 9)	\$ 68	\$ 38
AFUDC - equity component	5	2
Miscellaneous	1	9
Total Other Income	74	49
Other Expense		
Economic foreign currency exchange contracts (Note 14)	112	43
Charitable contributions	4	4
Miscellaneous	1	11
Total Other Expense	117	58
Other Income (Expense) - net	\$ (43)	\$ (9)

(PPL Electric)

The details of "Other Income (Expense) - net" for the three months ended March 31, were:

	PPL Electric	
	2018	2017
Other Income		
AFUDC - equity component	\$ 5	\$ 2
Defined benefit plans - non-service credits (Note 9)	2	—
Total Other Income	7	2
Other Expense		
Charitable contributions	1	1
Defined benefit plans - non-service costs (Note 9)	—	1
Total Other Expense	1	2
Other Income (Expense) - net	\$ 6	\$ —

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 months ended March 31, 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:

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	March 31, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 629	\$ 629	\$ —	\$ —	\$ 485	\$ 485	\$ —	\$ —
Restricted cash and cash equivalents (a)	24	24	—	—	26	26	—	—
Price risk management assets (b):								
Foreign currency contracts	97	—	97	—	163	—	163	—
Cross-currency swaps	79	—	79	—	101	—	101	—
Total price risk management assets	176	—	176	—	264	—	264	—
Total assets	\$ 829	\$ 653	\$ 176	\$ —	\$ 775	\$ 511	\$ 264	\$ —
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 22	\$ —	\$ 22	\$ —	\$ 26	\$ —	\$ 26	\$ —
Foreign currency contracts	167	—	167	—	148	—	148	—
Total price risk management liabilities	\$ 189	\$ —	\$ 189	\$ —	\$ 174	\$ —	\$ 174	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 20	\$ 20	\$ —	\$ —	\$ 49	\$ 49	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 22	\$ 22	\$ —	\$ —	\$ 51	\$ 51	\$ —	\$ —
WKE								
Assets								
Cash and cash equivalents	\$ 27	\$ 27	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Total assets	\$ 27	\$ 27	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 22	\$ —	\$ 22	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 22	\$ —	\$ 22	\$ —	\$ 26	\$ —	\$ 26	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 14	\$ 14	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 14	\$ 14	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 22	\$ —	\$ 22	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 22	\$ —	\$ 22	\$ —	\$ 26	\$ —	\$ 26	\$ —

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	March 31, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
KU								
Assets								
Cash and cash equivalents	\$ 11	\$ 11	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 11	\$ 11	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —

(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.

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.

	March 31, 2018		December 31, 2017	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 20,464	\$ 23,577	\$ 20,195	\$ 23,783
PPL Electric	3,298	3,632	3,298	3,769
LKE	5,259	5,654	5,159	5,670
LG&E	1,808	1,925	1,709	1,865
KU	2,329	2,546	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

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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 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.

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.

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edit 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 \$16 million obligation to return cash collateral under master netting arrangements at March 31, 2018 and a \$20 million obligation to return cash collateral under master netting arrangements at December 31, 2017.

PPL had a \$5 million obligation to post cash collateral under master netting arrangements at March 31, 2018 and no cash collateral posted under master netting arrangements at December 31, 2017.

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

LKE, LG&E and KU had no cash collateral posted under master netting arrangements at March 31, 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 in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges *(PPL)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL held no such contracts at March 31, 2018.

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For the three months ended March 31, 2018 and 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives.

At March 31, 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 months ended March 31, 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 months ended March 31, 2018, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges. For the three months ended March 31, 2017, PPL had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At March 31, 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 March 31, 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. The contracts outstanding at March 31, 2018 had a notional amount of £140 million (approximately \$195 million based on contracted rates). The settlement dates of these contracts are in June 2018.

At March 31, 2018 and December 31, 2017, PPL had \$20 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.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At March 31, 2018, the total exposure hedged by PPL was approximately £2.1 billion (approximately \$2.9 billion based on contracted rates). These contracts have termination dates ranging from April 2018 through August 2020.

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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 March 31, 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.

	March 31, 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)	4	—	—	—	4	—	—	—
Foreign currency contracts	1	2	51	75	—	—	45	67
Total current	5	2	51	79	4	—	45	71
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	18	—	—	—	22
Cross-currency swaps (b)	75	—	—	—	97	—	—	—
Foreign currency contracts	—	—	45	90	—	—	118	81
Total noncurrent	75	—	45	108	97	—	118	103
Total derivatives	\$ 80	\$ 2	\$ 96	\$ 187	\$ 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 March 31, 2018.

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Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	
			Three Months	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:				
Interest rate swaps	\$ —	Interest expense	\$ (2)	\$ —
Cross-currency swaps	(24)	Other income (expense) - net	(12)	—
Total	\$ (24)		\$ (14)	\$ —
Net Investment Hedges:				
Foreign currency contracts	\$ (1)			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months
Foreign currency contracts	Other income (expense) - net	\$ (112)
Interest rate swaps	Interest expense	(1)
Total		\$ (113)

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 4

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 March 31, 2017.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	
			Three Months	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:				
Interest rate swaps	\$ —	Interest expense	\$ (2)	\$ (1)
Cross-currency swaps	(8)	Interest expense	1	—
		Other income (expense) - net	3	—
Total	\$ (8)		\$ 2	\$ (1)
Net Investment Hedges:				
Foreign currency contracts	\$ —			

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Three Months
Foreign currency contracts	Other income (expense) - net	\$ (43)
Interest rate swaps	Interest expense	(2)
Total		\$ (45)

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

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(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.

	March 31, 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	—	18	—	22
Total noncurrent	—	18	—	22
Total derivatives	\$ —	\$ 22	\$ —	\$ 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 March 31, 2018.

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

Derivative Instruments	Location of Gain (Loss) Recognized in		Three Months
	Regulatory Assets		
Interest rate swaps	Regulatory assets - noncurrent		\$ 4

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 March 31, 2017.

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

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

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	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
March 31, 2018								
Treasury Derivatives								
PPL	\$ 176	\$ 78	\$ 16	\$ 82	\$ 189	\$ 78	\$ 5	\$ 106
LKE	—	—	—	—	22	—	—	22
LG&E	—	—	—	—	22	—	—	22
December 31, 2017								
Treasury Derivatives								
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 March 31, 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	\$ 101	\$ 8	\$ 8
Aggregate fair value of collateral posted on these derivative instruments	10	—	—
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	91	8	8

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

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15. Goodwill and Other Intangible Assets

(PPL)

The change in the carrying amount of goodwill for the three months ended March 31, 2018 was due to the effect of foreign currency exchange rates on the U.K. Regulated segment.

16. 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 final CCR rule. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with 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	3	3	—	3
Effect of foreign exchange rates	1	—	—	—
Changes in estimated timing or cost (a)	(10)	(10)	(5)	(5)
Obligations settled	(9)	(9)	(5)	(4)
Balance at March 31, 2018	\$ 382	\$ 340	\$ 111	\$ 229

(a) LG&E and KU recorded decreases to the existing AROs during the three months ended March 31, 2018 primarily related to the closure of CCR impoundments and associated groundwater monitoring. These revisions are the result of changes in closure plans related to expected costs and timing of closures. Further changes to AROs, capital plans or operating costs may be required as estimates of future cash flows are refined based on closure developments and regulatory or legal proceedings.

17. Accumulated Other Comprehensive Income (Loss)

(PPL)

The after-tax changes in AOCI by component for the periods ended March 31 were as follows.

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
PPL						
December 31, 2017	\$ (1,089)	\$ (13)	\$ —	\$ (7)	\$ (2,313)	\$ (3,422)
Amounts arising during the period	116	(20)	—	—	(1)	95
Reclassifications from AOCI	—	12	—	—	36	48
Net OCI during the period	116	(8)	—	—	35	143
March 31, 2018	\$ (973)	\$ (21)	\$ —	\$ (7)	\$ (2,278)	\$ (3,279)
December 31, 2016						
December 31, 2016	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the period	(24)	(6)	—	—	—	(30)
Reclassifications from AOCI	—	(1)	—	—	32	31
Net OCI during the period	(24)	(7)	—	—	32	1
March 31, 2017	\$ (1,651)	\$ (14)	\$ (1)	\$ (8)	\$ (2,103)	\$ (3,777)

The following table presents the gains (losses) and related income taxes for reclassifications from AOCI for the periods ended March 31. The defined benefit plan components of AOCI are not reflected in their entirety in the Statement of Income during

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periods; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 9 for additional information.

Details about AOCI	Three Months		Affected Line Item on the Statements of Income
	2018	2017	
Qualifying derivatives			
Interest rate swaps	\$ (2)	\$ (3)	Interest Expense
Cross-currency swaps	(12)	3	Other Income (Expense) - net
	—	1	Interest Expense
Total Pre-tax	(14)	1	
Income Taxes	2	—	
Total After-tax	(12)	1	
Defined benefit plans			
Net actuarial loss	(45)	(41)	
Total Pre-tax	(45)	(41)	
Income Taxes	9	9	
Total After-tax	(36)	(32)	
Total reclassifications during the period	\$ (48)	\$ (31)	

18. New Accounting Guidance Pending Adoption

(All Registrants)

Accounting for Leases

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

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

The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. One of these practical expedients allows entities to elect to (1) not reassess whether existing contracts contain leases, (2) carryforward 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. Transition will require application of the new guidance at the beginning of the earliest comparative period presented.

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

Accounting for Financial Instrument Credit Losses

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

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For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2018, and interim periods within those years. All entities may early adopt this guidance in 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. The guidance also updates certain recognition and presentation requirements as well as disclosure requirements.

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

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

(PPL, LKE, LG&E and KU)

Simplifying the Test for Goodwill Impairment

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

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

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

(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 months ended March 31, 2018 with the same period 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.

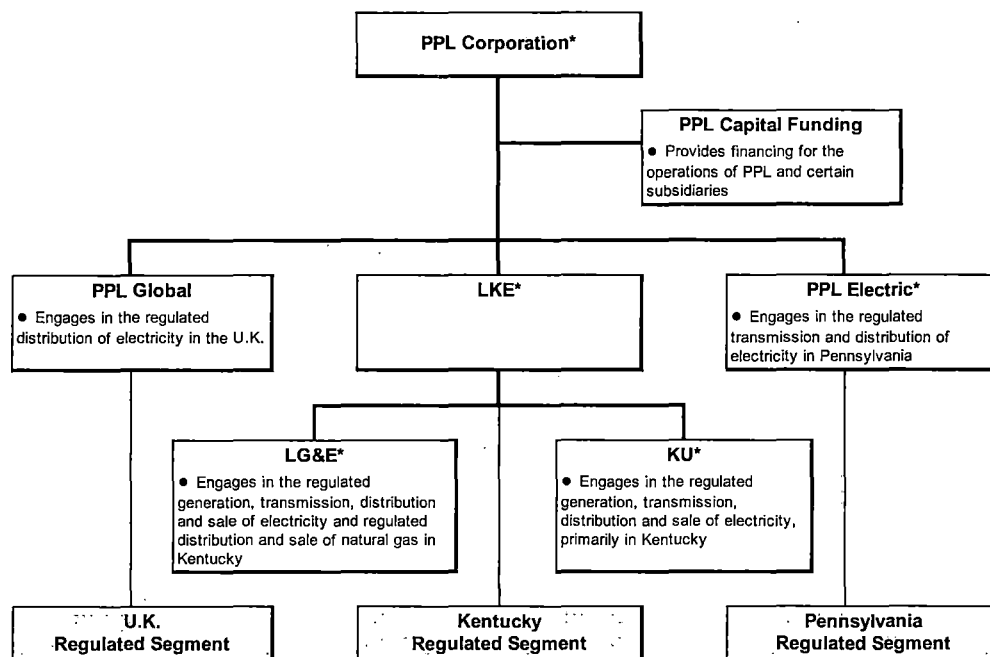
Overview

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.

(PL 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

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

PPL's businesses plan to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base in the U.S. and RAV in the U.K., 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, our strategy is to recover capital project costs efficiently through various rate-making mechanisms, including periodic base rate case proceedings using forward test years, annual FERC formula rate mechanisms and other regulatory agency-approved recovery mechanisms designed to limit regulatory lag. In Kentucky, the KPSC has adopted a series of regulatory mechanisms (ECR, DSM, GLT, fuel adjustment clause, gas supply clause and recovery on construction work-in-progress) that reduce regulatory lag and provide timely recovery of and return on, as appropriate, prudently incurred costs. In addition, the KPSC requires a utility to obtain a CPCN prior to constructing a facility, unless the construction is an ordinary extension of existing facilities in the usual course of business or does not involve sufficient capital 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" of 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 commitments to customers, regulators and shareowners, and a commitment to continue to improve our customer service, reliability and operational efficiency.

Financial and Operational Developments

U.S. Tax Reform (All Registrants)

Substantially all of the provisions of the TCJA, signed into law on December 22, 2017, are effective for taxable years beginning after December 31, 2017 and, to the extent such provisions are relevant to the Registrants, their impact has been reflected in the financial results for the first quarter of 2018. With respect to the TCJA provisions applicable to the period ended December 31, 2017, although additional guidance has been issued by the U.S. Department of the Treasury and the IRS concerning the application or operation of those provisions, such guidance has not materially impacted the related amounts reported in the Registrants' financial statements for the period ended March 31, 2018.

Kentucky Tax Reform (All Registrants)

On April 14, 2018, the Kentucky House of Representatives and Kentucky Senate passed House Bill 487 (HB 487). HB 487 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. HB 487 became law on April 27, 2018. LKE continues to evaluate the impacts of Kentucky tax reform, but expects to incur a deferred tax charge of approximately \$9 million in the second quarter of 2018 associated with the remeasurement of 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 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 over a period of time. LG&E and KU currently estimate the impact of the reduced tax rate, related to the remeasurement of deferred income taxes, to be an increase in regulatory liabilities of \$16 million and \$19 million. LG&E and KU continue to evaluate other impacts of Kentucky tax reform along with the associated regulatory considerations. 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 both the European Council and the European Parliament. There remains significant uncertainty as to the ultimate outcome of the withdrawal negotiations and the related impact on the U.K. economy and the GBP to U.S. dollar exchange rate.

PPL has executed hedges to mitigate the foreign exchange risk to the Company's U.K. earnings. As of April 27, 2018, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2018 at an average rate of \$1.32 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.

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Regulatory Requirements

(All Registrants)

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

(PPL)

RIIO-ED1 Mid-period Review

In December 2017, Ofgem initiated a consultation on a potential RIIO-ED1 mid-period review (MPR). The RIIO 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 RIIO-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 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. Ofgem is consulting 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 is 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 by May 2, 2018. The promulgation of sector-specific price controls will begin with the gas and electricity transmission networks in 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.

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

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs and ELGs. See Note 10 to the Financial Statements for a discussion of the other significant environmental matters.

Rate Case 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. The settlement agreement is subject to review and approval by the VSCC. On April 16, 2018, the hearing examiner issued a report recommending that the VSCC approve the settlement agreement.

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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. The savings will be distributed 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. 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. Ongoing tax savings are expected to also be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 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 March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issue related to the TCJA. A hearing on this matter is scheduled for May 24, 2018.

LG&E and KU cannot predict the outcome of these proceedings.

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 ongoing rate case in Virginia. New rates, inclusive of TCJA impacts, will be effective June 1, 2018. The settlement also stipulates that actual tax savings for the five month period prior to new rates taking effect will be addressed through KU's annual information filing for calendar year 2018. The settlement agreement is subject to review and approval by the VSCC. On April 16, 2018, the hearing examiner issued a report recommending that the VSCC approve 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.

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TCJA Impact on PPL Electric Rates (PPL and PPL Electric)

The PUC issued a Secretarial Letter on February 12, 2018 regarding the TCJA, 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 which will remain in effect for up to six months and may be extended for an additional six months. The PUC anticipates that the process to determine the manner in which rates will be adjusted in response to the TCJA will require further review and analysis of the responses to data requests, financial information and public comments submitted in response to the Secretarial Letter. For the period ended March 31, 2018, PPL Electric has not recorded an accrual with respect to any potential rate adjustment due to the adoption of the TCJA, as PPL Electric believes it is not probable that a loss has been incurred. Under applicable law, it is reasonably possible that the PUC could seek to adjust rates as of March 15, 2018, the date of the Temporary Rates Order. In that case, PPL Electric's estimated maximum loss exposure would be the excess amounts collected in customer rates related to applicable federal income taxes since the date of the Temporary Rates Order, which amount is immaterial as of March 31, 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. In a news release issued the same day, the FERC acknowledged that many transmission rates automatically adjust with changes in the tax rates and the adjustments for much of the industry are already taking place. PPL Electric has not made any submission in response to the Notice of Inquiry. On March 16, 2018, PPL Electric filed a waiver pursuant to Rule 207(a) (5) of the Rules of Practice and Procedure of the Federal Energy Regulatory Commission with the FERC to request the incorporation of the changes to the federal income tax rate in its transmission formula rate commencing on June 1, 2018 rather than allowing the TCJA reduction in the federal income tax rate 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, which was inclusive of the federal income tax rate as set by the TCJA, on April 27, 2018.

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 months ended March 31, 2018 with the same period 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.

(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 months ended March 31, 2018 with the same period 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 March 31 includes the following results.

	Three Months		
	2018	2017	\$ Change
Operating Revenues	\$ 2,126	\$ 1,951	\$ 175
Operating Expenses			
Operation			
Fuel	214	191	23
Energy purchases	241	215	26
Other operation and maintenance	468	470	(2)
Depreciation	269	242	27
Taxes, other than income	83	75	8
Total Operating Expenses	1,275	1,193	82
Other Income (Expense) - net	(43)	(9)	(34)
Interest Expense	239	217	22
Income Taxes	117	129	(12)
Net Income	\$ 452	\$ 403	\$ 49

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Domestic:	
PPL Electric Distribution volume	\$ 20
PPL Electric PLR Revenue (a)	17
PPL Electric Transmission Formula Rate	28
LKE Volumes	67
LKE Base rates	30
LKE TCJA (b)	(34)
Total Domestic	128
U.K.:	
Price	(10)
Volume	(8)
Foreign currency exchange rates	58
Other	7
Total U.K.	47
Total	\$ 175

(a) The increase was primarily due to higher energy volumes at PPL Electric.

(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. A regulatory liability was recorded for this amount. See Note 7 for additional information.

Fuel

Fuel increased \$23 million for the three months ended March 31, 2018 compared with 2017, primarily due to an increase in volumes driven by colder weather in 2018.

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Energy Purchases

Energy purchases increased \$26 million for the three months ended March 31, 2018 compared with 2017, primarily due to a \$15 million increase in PLR volumes at PPL Electric and a \$20 million increase in natural gas volumes at LG&E driven by colder weather in 2018, partially offset by an \$8 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 period ended March 31, 2018 compared with 2017 was due to:

	<u>Three Months</u>
Domestic:	
PPL Electric Act 129	\$ (3)
PPL Electric payroll-related costs	(13)
PPL Electric vegetation management	(5)
Other	(2)
U.K.:	
Foreign currency exchange rates	11
Third-party engineering	5
Other	5
Total	<u>\$ (2)</u>

Depreciation

Depreciation increased \$27 million for the three months ended March 31, 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 and 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 at LG&E and KU and the impact of foreign currency exchange rates at WPD.

Taxes, Other Than Income

The increase (decrease) in taxes, other than income for the period ended March 31, 2018 compared with 2017 was due to:

	<u>Three Months</u>
Pennsylvania gross receipts tax	\$ 3
Foreign currency exchange rates	3
Other	2
Total	<u>\$ 8</u>

Other Income (Expense) - net

Other income (expense) - net decreased \$34 million for the three months ended March 31, 2018 compared with 2017, primarily due to higher realized and unrealized losses on foreign currency contracts to economically hedge GBP denominated earnings from WPD of \$69 million, partially offset by an increase in non-service cost credits from defined benefit plans of \$30 million.

Interest Expense

The increase (decrease) in interest expense for the period ended March 31, 2018 compared with 2017 was due to:

	<u>Three Months</u>
Long-term debt interest expense	\$ 12
Foreign currency exchange rates	9
Other	1
Total	<u>\$ 22</u>

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Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Change in pre-tax income	\$ 8
Reduction in U.S. federal income tax rate	(32)
U.S. income tax on foreign earnings - net of foreign tax credit (a)	10
Depreciation and other items not normalized (b)	(9)
Stock-based compensation	4
Other	7
Total	\$ (12)

(a) The increase is primarily due to the tax benefit of accelerated pension contributions made in the first quarter of 2017.

(b) The decrease is 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, on the flow-through of tax benefits associated with the regulatory treatment of taxes on plant related activity.

Segment Earnings

PPL's net income by reportable segments for the period ended March 31 were as follows:

	Three Months		
	2018	2017	\$ Change
U.K. Regulated	\$ 197	\$ 286	\$ (89)
Kentucky Regulated	133	95	38
Pennsylvania Regulated	148	79	69
Corporate and Other (a)	(26)	(57)	31
Net Income	\$ 452	\$ 403	\$ 49

(a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The change in 2018 compared with 2017 is 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.

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.
- 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

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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 period ended March 31 were as follows:

	Three Months		
	2018	2017	\$ Change
U.K. Regulated	\$ 262	\$ 307	\$ (45)
Kentucky Regulated	133	96	37
Pennsylvania Regulated	148	79	69
Corporate and Other	(26)	(57)	31
Earnings from Ongoing Operations	\$ 517	\$ 425	\$ 92

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 44% of PPL's Net Income for the three months ended March 31, 2018 and 41% of PPL's assets at March 31, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

	Three Months		
	2018	2017	\$ Change
Operating revenues	\$ 615	\$ 568	\$ 47
Other operation and maintenance	132	107	25
Depreciation	62	55	7
Taxes, other than income	34	31	3
Total operating expenses	228	193	35
Other Income (Expense) - net	(47)	—	(47)
Interest Expense	107	94	13
Income Taxes	36	(5)	41
Net Income	197	286	(89)
Less: Special Items	(65)	(21)	(44)
Earnings from Ongoing Operations	\$ 262	\$ 307	\$ (45)

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 March 31.

Income Statement Line Item	Three Months	
	2018	2017
Foreign currency economic hedges, net of tax of \$17, \$12 (a)	\$ (65)	\$ (21)
Total Special Items	\$ (65)	\$ (21)

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

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.

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	<u>Three Months</u>
U.K.	
U.K. Adjusted Gross Margins	\$ (17)
Other operation and maintenance	(5)
Depreciation	—
Other Income (Expense) - net	15
Interest expense	(4)
Other	(1)
Income taxes	(5)
U.S.	
Income taxes	(43)
Foreign currency exchange, after-tax	15
Earnings from Ongoing Operations	(45)
Special items, after-tax	(44)
Net Income	\$ (89)

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 primarily due to \$15 million from higher pension income due to an increase in expected returns on higher asset balances.
- Higher income taxes primarily due to an increase of \$9 million related to accelerated tax deductions in the first quarter of 2017.

U.S.

- Higher income taxes primarily due to a \$35 million tax benefit on accelerated pension contributions in the first quarter of 2017 and a \$7 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 29% of PPL's Net Income for the three months ended March 31, 2018 and 34% of PPL's assets at March 31, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

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	Three Months		
	2018	2017	\$ Change
Operating revenues	\$ 872	\$ 809	\$ 63
Fuel	214	191	23
Energy purchases	80	69	11
Other operation and maintenance	205	205	—
Depreciation	117	105	12
Taxes, other than income	17	16	1
Total operating expenses	633	586	47
Other Income (Expense) - net	(3)	(4)	1
Interest Expense	67	65	2
Income Taxes	36	59	(23)
Net Income	133	95	38
Less: Special Items	—	(1)	1
Earnings from Ongoing Operations	\$ 133	\$ 96	\$ 37

The following after-tax gain (loss), which management considers a special item, impacted the Kentucky Regulated segment's results and is excluded from Earnings from Ongoing Operations during the periods ended March 31.

Income Statement Line Item	Three Months	
	2018	2017
Adjustment to investment, net of tax of \$0, \$0 (a)	\$ —	\$ (1)
Total Special Items	\$ —	\$ (1)

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

The changes in the components of the Kentucky Regulated segment's results between these periods are due to the factors set forth below, which reflect amounts classified as Kentucky 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
Kentucky Adjusted Gross Margins	\$ 28
Other operation and maintenance	(1)
Depreciation	(11)
Interest Expense	(2)
Income Taxes	23
Earnings from Ongoing Operations	37
Special items, after-tax	1
Net Income	\$ 38

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Kentucky Adjusted Gross Margins.
- Higher depreciation expense primarily due to higher depreciation rates effective July 1, 2017, and additions to PP&E, net of retirements.
- Lower income taxes 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.

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 33% of PPL's Net Income for the three months ended March 31, 2018 and 24% of PPL's assets at March 31, 2018.

Net Income and Earnings from Ongoing Operations for the periods ended March 31 include the following results.

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	Three Months		
	2018	2017	\$ Change
Operating revenues	\$ 639	\$ 573	\$ 66
Energy purchases	161	146	15
Other operation and maintenance	133	163	(30)
Depreciation	85	75	10
Taxes, other than income	32	29	3
Total operating expenses	411	413	(2)
Other Income (Expense) - net	6	—	6
Interest Expense	37	33	4
Income Taxes	49	48	1
Net Income	148	79	69
Less: Special Items (a)	—	—	—
Earnings from Ongoing Operations	\$ 148	\$ 79	\$ 69

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

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

	Three Months
Pennsylvania Adjusted Gross Margins	\$ 48
Other operation and maintenance	27
Depreciation	(6)
Taxes, other than income	(1)
Other Income (Expense) - net	6
Interest Expense	(4)
Income Taxes	(1)
Net Income	\$ 69

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Pennsylvania Adjusted Gross Margins.
- Lower other operation and maintenance expense primarily due to \$16 million of lower corporate service costs allocated to PPL Electric and \$13 million of lower payroll related expenses.
- Income taxes are relatively flat due to an increase in pre-tax income resulting in \$29 million of additional tax, partially offset by 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 \$25 million.

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 March 31.

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	2018 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 197	\$ 133	\$ 148	\$ (26)	\$ 452
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$17	(65)	—	—	—	(65)
Total Special Items	(65)	—	—	—	(65)
Earnings from Ongoing Operations	\$ 262	\$ 133	\$ 148	\$ (26)	\$ 517

	2017 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 286	\$ 95	\$ 79	\$ (57)	\$ 403
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$12	(21)	—	—	—	(21)
Adjustment to investment, net of tax of \$0	—	(1)	—	—	(1)
Total Special Items	(21)	(1)	—	—	(22)
Earnings from Ongoing Operations	\$ 307	\$ 96	\$ 79	\$ (57)	\$ 425

Adjusted Gross Margins

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

- "U.K. Adjusted Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.

"Kentucky Adjusted Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, 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 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.

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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 March 31 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months		
	2018	2017	\$ Change
U.K. Regulated			
U.K. Adjusted Gross Margins	\$ 572	\$ 536	\$ 36
Impact of changes in foreign currency exchange rates			53
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates			\$ (17)
Kentucky Regulated			
Kentucky Adjusted Gross Margins			
LG&E	\$ 241	\$ 226	\$ 15
KU	294	281	13
Total Kentucky Adjusted Gross Margins	\$ 535	\$ 507	\$ 28
Pennsylvania Regulated			
Pennsylvania Adjusted Gross Margins			
Distribution	\$ 278	\$ 258	\$ 20
Transmission	136	108	28
Total Pennsylvania Adjusted Gross Margins	\$ 414	\$ 366	\$ 48

U.K. Adjusted Gross Margins

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, decreased primarily due to \$10 million from the April 1, 2017 price decrease, driven by lower true-up mechanisms partially offset by higher base demand revenue, and \$8 million of lower volumes.

Kentucky Adjusted Gross Margins

Kentucky Adjusted Gross Margins increased primarily due to \$31 million of increased sales volumes related to colder weather in 2018 (\$8 million at LG&E and \$23 million at KU) and higher base rates of \$30 million (\$17 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, partially offset by \$34 million of estimated income tax savings owed to customers (\$16 million at LG&E and \$18 million at KU) through the new TCJA bill credit 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 increased primarily due to \$14 million of higher electricity sales volumes due to favorable weather in 2018 and \$3 million of returns on additional Smart Meter capital investments.

Transmission

Transmission adjusted gross margins increased primarily due to an increase of \$22 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and a \$6 million increase as a result of a higher PPL zonal peak load billing factor in the first quarter of 2018.

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 March 31.

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	2018 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 604 (c)	\$ 872	\$ 639	\$ 11	\$ 2,126
Operating Expenses					
Fuel	—	214	—	—	214
Energy purchases	—	80	161	—	241
Other operation and maintenance	32	25	26	385	468
Depreciation	—	17	8	244	269
Taxes, other than income	—	1	30	52	83
Total Operating Expenses	32	337	225	681	1,275
Total	\$ 572	\$ 535	\$ 414	\$ (670)	\$ 851

	2017 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 559 (c)	\$ 809	\$ 573	\$ 10	\$ 1,951
Operating Expenses					
Fuel	—	191	—	—	191
Energy purchases	—	69	146	—	215
Other operation and maintenance	23	26	29	392	470
Depreciation	—	16	4	222	242
Taxes, other than income	—	—	28	47	75
Total Operating Expenses	23	302	207	661	1,193
Total	\$ 536	\$ 507	\$ 366	\$ (651)	\$ 758

(c) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$11 million and \$9 million for the three months ended March 31, 2018 and 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 lower, driven primarily by higher operation and maintenance expense, higher depreciation expense, higher interest expense and a lower tax shield on holding company interest and expenses, partially offset by an assumed return to normal weather and higher base electricity and gas rates effective July 1, 2017.

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PPL's Pennsylvania Regulated Segment and PPL Electric)

Higher net income is projected in 2018 compared with 2017, primarily driven by higher transmission earnings and lower operation and maintenance expense, 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 flat in 2018 compared to 2017, due to a lower tax shield on holding company interest expense offset by lower financing costs.

(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 March 31 includes the following results.

	Three Months		
	2018	2017	\$ Change
Operating Revenues	\$ 639	\$ 573	\$ 66
Operating Expenses			
Operation			
Energy purchases	161	146	15
Other operation and maintenance	133	163	(30)
Depreciation	85	75	10
Taxes, other than income	32	29	3
Total Operating Expenses	411	413	(2)
Other Income (Expense) - net	6	—	6
Interest Expense	37	33	4
Income Taxes	49	48	1
Net Income	\$ 148	\$ 79	\$ 69

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Distribution volume	\$ 20
PLR (a)	17
Transmission Formula Rate	28
Other	1
Total	\$ 66

(a) The increase for the three month period was primarily due to higher energy volumes as described below.

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Energy Purchases

Energy purchases increased \$15 million for the three months ended March 31, 2018 compared with 2017, primarily due to higher PLR volumes.

Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the period ended March 31, 2018 compared with 2017 was due to:

	<u>Three Months</u>
Corporate service costs	\$ (16)
Vegetation management	(5)
Storm costs	4
Payroll-related costs	(13)
Act 129	(3)
Bad debts	3
Total	<u>\$ (30)</u>

Depreciation

Depreciation increased \$10 million for the three months ended March 31, 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 \$6 million for the three months ended March 31, 2018 compared with 2017, primarily due to a \$3 million increase related to higher AFUDC equity rates and a \$3 million increase in non-service cost credits from defined benefit plans.

Interest Expense

Interest expense increased \$4 million for the three months ended March 31, 2018 compared with 2017, primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047.

Income Taxes

The increase (decrease) in income taxes for the period ended March 31, 2018 compared with 2017 was due to:

	<u>Three Months</u>
Change in pre-tax income	\$ 29
Reduction in U.S. federal income tax rate	(25)
Depreciation and other items not normalized (a)	(5)
Other	2
Total	<u>\$ 1</u>

(a) The decrease is 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, on the flow-through of tax benefits associated with the regulatory treatment of taxes on plant related activity.

Earnings

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2018</u>	<u>2017</u>
Net Income	\$ 148	\$ 79
Special items, gains (losses), after-tax (a)	—	—

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

Earnings increased for the three month period in 2018 compared with 2017, driven primarily by higher revenues and lower operation and maintenance expense. The higher revenues were driven by returns on additional capital investments in transmission and higher sales volumes in distribution due to favorable weather.

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

	Three Months
Pennsylvania Adjusted Gross Margins	\$ 48
Other operation and maintenance	27
Depreciation	(6)
Taxes, other than income	(1)
Other Income (Expense) - net	6
Interest Expense	(4)
Income Taxes	(1)
Net Income	<u>\$ 69</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 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 March 31.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 639	\$ —	\$ 639	\$ 573	\$ —	\$ 573
Operating Expenses						
Energy purchases	161	—	161	146	—	146
Other operation and maintenance	26	107	133	29	134	163
Depreciation	8	77	85	4	71	75
Taxes, other than income	30	2	32	28	1	29
Total Operating Expenses	225	186	411	207	206	413
Total	<u>\$ 414</u>	<u>\$ (186)</u>	<u>\$ 228</u>	<u>\$ 366</u>	<u>\$ (206)</u>	<u>\$ 160</u>

- (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 March 31 includes the following results.

	Three Months		
	2018	2017	\$ Change
Operating Revenues	\$ 872	\$ 809	\$ 63
Operating Expenses			
Operation			
Fuel	214	191	23
Energy purchases	80	69	11
Other operation and maintenance	205	205	—
Depreciation	117	105	12
Taxes, other than income	17	16	1
Total Operating Expenses	633	586	47
Other Income (Expense) - net	(3)	(4)	1
Interest Expense	50	49	1
Interest Expense with Affiliate	5	4	1
Income Taxes	39	63	(24)
Net Income	\$ 142	\$ 103	\$ 39

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Volumes	\$ 67
Rate changes	30
TCJA (a)	(34)
Total	\$ 63

(a) 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. A regulatory liability was recorded for this amount. See Note 7 for additional information.

Fuel

Fuel increased \$23 million for the three months ended March 31, 2018 compared with 2017, primarily due to an increase in volumes driven by colder weather in 2018.

Energy Purchases

Energy purchases increased \$11 million for the three months ended March 31, 2018 compared with 2017, primarily due to a \$20 million increase in natural gas volumes driven by colder weather in 2018, partially offset by an \$8 million decrease in market prices for natural gas.

Depreciation

Depreciation increased \$12 million for the three months ended March 31, 2018 compared with 2017, primarily due to an \$8 million increase related to higher depreciation rates effective July 1, 2017 and a \$3 million increase related to additions to PP&E, net of retirements.

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Income Taxes

Income taxes decreased \$24 million for the three months ended March 31, 2018 compared with 2017, 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.

Earnings

	Three Months Ended	
	March 31,	
	2018	2017
Net Income	\$ 142	\$ 103
Special items, gains (losses), after-tax	—	(1)

Earnings increased for the three month period in 2018 compared with 2017, primarily due to higher sales volumes driven by colder weather, higher base electricity and gas rates effective July 1, 2017 and lower income taxes due to the reduction in the U.S. federal corporate income tax rate effective January 1, 2018, partially offset by 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 and an item that management considers special on separate lines and not in their respective Statement of Income line items.

	Three Months	
Adjusted Gross Margins	\$	28
Other operation and maintenance		(1)
Depreciation		(11)
Interest Expense		(2)
Income Taxes		24
Special items, gains (losses), after-tax (a)		1
Net Income	\$	39

(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, 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 March 31.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 872	\$ —	\$ 872	\$ 809	\$ —	\$ 809
Operating Expenses						
Fuel	214	—	214	191	—	191
Energy purchases	80	—	80	69	—	69
Other operation and maintenance	25	180	205	26	179	205
Depreciation	17	100	117	16	89	105
Taxes, other than income	1	16	17	—	16	16
Total Operating Expenses	337	296	633	302	284	586
Total	\$ 535	\$ (296)	\$ 239	\$ 507	\$ (284)	\$ 223

(a) Represents amounts excluded from Adjusted Gross Margins.

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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 March 31 includes the following results.

	Three Months		
	2018	2017	\$ Change
Operating Revenues			
Retail and wholesale	\$ 407	\$ 374	\$ 33
Electric revenue from affiliate	12	17	(5)
Total Operating Revenues	419	391	28
Operating Expenses			
Operation			
Fuel	79	80	(1)
Energy purchases	76	64	12
Energy purchases from affiliate	6	2	4
Other operation and maintenance	89	85	4
Depreciation	48	44	4
Taxes, other than income	9	8	1
Total Operating Expenses	307	283	24
Other Income (Expense) - net	(1)	(4)	3
Interest Expense	18	17	1
Income Taxes	21	33	(12)
Net Income	\$ 72	\$ 54	\$ 18

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2018 compared with 2017 was due to:

	Three Months
Volumes	\$ 28
Base rates	16
TCJA (a)	(16)
Total	\$ 28

(a) 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. A regulatory liability was recorded for this amount. See Note 7 for additional information.

Energy Purchases

Energy purchases increased \$12 million for the three months ended March 31, 2018 compared with 2017, due to a \$20 million increase in natural gas volumes driven by colder weather in 2018, partially offset by an \$8 million decrease in market prices for natural gas.

Energy Purchases from Affiliate

Energy purchases from affiliate increased \$4 million for the three months ended March 31, 2018 compared with 2017, primarily due to increased generation available from KU.

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Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended March 31, 2018 compared with 2017 was due to:

	<u>Three Months</u>
Timing and scope of generation maintenance outages	1
Storm costs	1
Other	2
Total	<u>\$ 4</u>

Depreciation

Depreciation increased \$4 million for the three months ended March 31, 2018 compared with 2017, due to a \$2 million increase related to higher depreciation rates effective July 1, 2017 and a \$2 million increase related to additions to PP&E, net of retirements.

Income Taxes

Income taxes decreased \$12 million for the three months ended March 31, 2018 compared with 2017, 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.

Earnings

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2018</u>	<u>2017</u>
Net Income	\$ 72	\$ 54
Special items, gains (losses), after-tax (a)	—	—

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

Earnings increased for the three month period in 2018 compared with 2017, primarily due to higher sales volumes driven by colder weather, higher base electricity and gas rates effective July 1, 2017 and lower income taxes due to the reduction in the U.S. federal corporate income tax rate effective January 1, 2018, partially offset by higher depreciation expense and higher other operation and maintenance expense.

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

	<u>Three Months</u>
Adjusted Gross Margins	\$ 15
Other operation and maintenance	(5)
Depreciation	(5)
Taxes, other than income	(1)
Other Income (Expense) - net	3
Interest Expense	(1)
Income Taxes	12
Net Income	<u>\$ 18</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

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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 March 31.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 419	\$ —	\$ 419	\$ 391	\$ —	\$ 391
Operating Expenses						
Fuel	79	—	79	80	—	80
Energy purchases, including affiliate	82	—	82	66	—	66
Other operation and maintenance	9	80	89	10	75	85
Depreciation	8	40	48	9	35	44
Taxes, other than income	—	9	9	—	8	8
Total Operating Expenses	178	129	307	165	118	283
Total	\$ 241	\$ (129)	\$ 112	\$ 226	\$ (118)	\$ 108

- (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 March 31 includes the following results.

	Three Months		
	2018	2017	\$ Change
Operating Revenues			
Retail and wholesale	\$ 465	\$ 435	\$ 30
Electric revenue from affiliate	6	2	4
Total Operating Revenues	471	437	34
Operating Expenses			
Operation			
Fuel	135	111	24
Energy purchases	4	5	(1)
Energy purchases from affiliate	12	17	(5)
Other operation and maintenance	105	108	(3)
Depreciation	68	60	8
Taxes, other than income	8	8	—
Total Operating Expenses	332	309	23
Other Income (Expense) - net	(3)	(2)	(1)
Interest Expense	25	24	1
Income Taxes	24	39	(15)
Net Income	\$ 87	\$ 63	\$ 24

Operating Revenues

The increase (decrease) in operating revenues for the period ended March 31, 2018 compared with 2017 was due to:

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	Three Months
Volumes	\$ 38
Base rates	14
TCJA (a)	(18)
Total	\$ 34

(a) 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. A regulatory liability was recorded for this amount. See Note 7 for additional information.

Fuel

Fuel increased \$24 million for the three months ended March 31, 2018 compared with 2017, primarily due to an increase in volumes driven by colder weather in 2018.

Energy Purchases from Affiliate

Energy purchases from affiliate decreased \$5 million for the three months ended March 31, 2018 compared with 2017, primarily due to increased generation by KU.

Depreciation

Depreciation increased \$8 million for the three months ended March 31, 2018 compared with 2017, primarily due to a \$6 million increase related to higher depreciation rates effective July 1, 2017.

Income Taxes

Income taxes decreased \$15 million for the three months ended March 31, 2018 compared with 2017, 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.

Earnings

	Three Months Ended	
	March 31,	
	2018	2017
Net Income	\$ 87	\$ 63
Special items, gains (losses), after-tax	—	(1)

Earnings increased for the three month period in 2018 compared with 2017, primarily due to higher sales volumes driven by colder weather, higher base electricity rates effective July 1, 2017 and lower income taxes due to the reduction in the U.S federal corporate income tax rate effective January 1, 2018, partially offset by 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
Adjusted Gross Margins	\$ 13
Other operation and maintenance	3
Depreciation	(6)
Taxes, other than income	1
Other Income (Expense) - net	(2)
Interest Expense	(1)
Income Taxes	15
Special items, gains (losses), after-tax (a)	1
Net Income	\$ 24

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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 March 31.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 471	\$ —	\$ 471	\$ 437	\$ —	\$ 437
Operating Expenses						
Fuel	135	—	135	111	—	111
Energy purchases, including affiliate	16	—	16	22	—	22
Other operation and maintenance	16	89	105	16	92	108
Depreciation	9	59	68	7	53	60
Taxes, other than income	1	7	8	—	8	8
Total Operating Expenses	177	155	332	156	153	309
Total	\$ 294	\$ (155)	\$ 139	\$ 281	\$ (153)	\$ 128

(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:

	PPL (a)	PPL Electric	LKE	LG&E	KU
<u>March 31, 2018</u>					
Cash and cash equivalents	\$ 629	\$ 20	\$ 27	\$ 14	\$ 11
Short-term debt	1,457	213	215	137	78
Long-term debt due within one year	250	—	—	—	—
Notes payable with affiliates	—	—	237	—	—
<u>December 31, 2017</u>					
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 March 31, 2018, \$263 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.

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Net cash provided by (used in) operating, investing and financing activities for the three month periods ended March 31, and the changes between periods, are as follows.

	PPL	PPL Electric	LKE	LG&E	KU
2018					
Operating activities	\$ 566	\$ 76	\$ 278	\$ 146	\$ 185
Investing activities	(753)	(246)	(294)	(150)	(143)
Financing activities	331	141	13	3	(46)
2017					
Operating activities	\$ 135	\$ 55	\$ 312	\$ 142	\$ 139
Investing activities	(679)	(276)	(184)	(94)	(89)
Financing activities	607	228	(126)	(49)	(50)
Change - Cash Provided (Used)					
Operating activities	\$ 431	\$ 21	\$ (34)	\$ 4	\$ 46
Investing activities	(74)	30	(110)	(56)	(54)
Financing activities	(276)	(87)	139	52	4

Operating Activities

The components of the change in cash provided by (used in) operating activities for the three months ended March 31, 2018 compared with 2017 were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Net income	\$ 49	\$ 69	\$ 39	\$ 18	\$ 24
Non-cash components	(64)	(20)	(35)	(20)	(33)
Working capital	127	4	57	63	84
Defined benefit plan funding	370	(4)	(86)	(54)	(28)
Other operating activities	(51)	(28)	(9)	(3)	(1)
Total	\$ 431	\$ 21	\$ (34)	\$ 4	\$ 46

(PPL)

PPL's cash provided by operating activities in 2018 increased \$431 million compared with 2017.

- Net income increased \$49 million between periods and included a decrease in non-cash charges of \$64 million. The decrease in non-cash charges was primarily due to a decrease in deferred income tax expense (primarily due to lower income taxes from tax benefits related to accelerated pension contributions to the U.K. pension plans in 2017 and book versus tax plant timing differences and net operating losses at EU) 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 unrealized losses on hedging activities and an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates effective July 1, 2017 at LG&E and KU and the impact of foreign currency exchange rates at WPD).
- The \$127 million increase in cash from changes in working capital was primarily due to a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms) and an increase in taxes payable (primarily due to an increase in current income tax benefits in 2017).
- Defined benefit plan funding was \$370 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 \$21 million compared with 2017.

- Net income increased \$69 million between the periods and included a decrease in non-cash charges of \$20 million. The decrease in non-cash charges was primarily driven by a \$20 million decrease in deferred income taxes (primarily due to book versus tax plant timing differences and net operating losses).

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- The \$28 million decrease in cash provided by other operating activities was primarily due to an increase in non-current regulatory assets (primarily due to \$17 million of storm costs incurred in March 2018).

(LKE)

LKE's cash provided by operating activities in 2018 decreased \$34 million compared with 2017.

- 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 timing of rate recovery mechanisms), an increase in accounts payable (primarily due to timing of payments) and an increase in taxes payable (primarily due to timing of payments), partially offset by an increase in accounts receivable (primarily due to colder weather in 2018 compared with 2017) and a decrease in other current liabilities (primarily due to timing of payments).
- Defined benefit plan funding was \$86 million higher in 2018.

(LG&E)

LG&E's cash provided by operating activities in 2018 increased \$4 million compared with 2017.

- The increase in cash from changes in working capital was primarily driven by lower tax payments in 2018 compared with 2017, a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), and an increase in accounts payable (primarily due to timing of payments), partially offset by an increase in accounts receivable (primarily due to colder weather in 2018 compared with 2017) and a decrease in other current liabilities (primarily due to timing of payments).
- Defined benefit plan funding was \$54 million higher in 2018.

(KU)

KU's cash provided by operating activities in 2018 increased \$46 million compared with 2017.

- The increase in cash from changes in working capital was primarily driven by an increase in taxes payable (primarily due to the 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) and an increase in accounts payable (primarily due to timing of payments), partially offset by an increase in accounts receivable (due to colder weather in 2018 compared with 2017) and a decrease in other current liabilities (primarily due to the timing of payments).
- Defined benefit plan funding was \$28 million higher in 2018.

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 three months ended March 31, 2018 compared with 2017 was as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Decrease (Increase)	\$ (73)	\$ 29	\$ (110)	\$ (56)	\$ (54)

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 PPL Electric and WPD. 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. 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 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.

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Financing Activities

(All Registrants)

The components of the change in cash provided by (used in) financing activities for the three months ended March 31, 2018 compared with 2017 were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ 80	\$ —	\$ 100	\$ 100	\$ —
Stock issuances/redemptions, net	27	—	—	—	—
Dividends	(15)	4	—	53	(9)
Capital contributions/distributions, net	—	(100)	33	—	—
Change in short-term debt, net	(375)	9	(87)	(100)	13
Notes payable with affiliate	—	—	93	—	—
Other financing activities	7	—	—	(1)	—
Total	\$ (276)	\$ (87)	\$ 139	\$ 52	\$ 4

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 March 31, 2018, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,350	\$ —	\$ 369	\$ 981
PPL Electric Credit Facility	650	—	214	436
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	700	200	137	363
KU Credit Facilities	598	—	276	322
Total LKE	1,373	200	413	760
Total U.S. Credit Facilities (a)	\$ 3,373	\$ 200	\$ 996	\$ 2,177
Total U.K. Credit Facilities (b)	£ 1,185	£ 497	£ —	£ 690

- (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 March 31, 2018 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings which equated to \$484 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £143 million as of the date borrowed. At March 31, 2018, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$949 million.

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.

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Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Non-affiliate Used Capacity	Unused Capacity
LKE Credit Facility	\$ 300	\$ 237	\$ —	\$ 63
LG&E Money Pool (a)	500	—	137	363
KU Money Pool (a)	500	—	78	422

(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 March 31, 2018:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 345	\$ 655
PPL Electric	650	213	437
LG&E	350	137	213
KU	350	78	272
Total LKE	700	215	485
Total PPL	\$ 2,350	\$ 773	\$ 1,577

Long-term Debt (All Registrants)

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

(PPL)

ATM Program

For the three months ended March 31, 2018, PPL issued 3.0 million shares of common stock and received proceeds of \$85 million. See Note 8 to the Financial Statements for further discussion of the ATM program.

Common Stock Dividends

In February 2018, PPL declared a quarterly common stock dividend, payable April 2, 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.

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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:

(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.

(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 March 31, 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.

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The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

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

The following interest rate hedges were outstanding at March 31, 2018.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Cross-currency swaps (c)	702	80	(85)	2028
Economic hedges				
Interest rate swaps (d)	147	(23)	(2)	2033
LKE				
Economic hedges				
Interest rate swaps (d)	147	(23)	(2)	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	147	(23)	(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 March 31, 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 March 31, 2018 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 629
PPL Electric	163
LKE	171
LG&E	63
KU	94

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

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

The following foreign currency hedges were outstanding at March 31, 2018.

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through
Net investment hedges (b)	£ 140	\$ (1)	\$ (20)	2018
Economic hedges (c)	2,094	(69)	(276)	2020

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

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

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

(All Registrants)

Commodity Price Risk

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

- PPL Electric is required to purchase electricity to fulfill its obligation as a PLR. Potential commodity price risk is 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 gain of \$117 million for the three months ended March 31, 2018, which primarily reflected a \$212 million increase to PP&E and a \$44 million increase to goodwill partially offset by a \$125 million increase to long-term debt and a \$14 million increase to other net liabilities. Changes in this exchange rate resulted in a foreign currency translation loss of \$24 million for the three months ended March 31, 2017, which primarily reflected a \$46 million decrease to PP&E and \$10 million decrease to goodwill partially offset by a \$28 million decrease to long-term debt and a \$4 million decrease to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

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Related Party Transactions (All Registrants)

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 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 Note 10 to the Financial Statements for a discussion of the more significant environmental matters including Legal Matters, NAAQS, Climate Change, CCRs, and ELGs. Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2017 Form 10-K for additional information.

New Accounting Guidance (All Registrants)

See Note 2 and 18 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.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
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

**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 March 31, 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' first fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving tax litigation, regulatory, environmental and other matters, 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 6. Exhibits

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

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- a) - Distribution Agreement, dated February 23, 2018, by and among PPL Corporation and J.P. Morgan Securities, LLC, Barclays Capital Inc., Citigroup Global Markets Inc., JPMorgan Chase Bank, National Association, London Branch, Barclays Bank PLC and Citibank N.A. (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 23, 2018)
- *1(b) - Final Terms, dated March 23, 2018, of Western Power Distribution (South Wales) plc £30,000,000 RPI Index Linked Senior Unsecured Notes due March 2036
- *4(a)-1 - Amended and Restated Trust Deed, relating to the £3,000,000,000 Euro Medium Term Note Programme of the Issuers, dated September 9, 2016, by and among Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee
- *4(a)-2 - Supplement Prospectus, dated March 15, 2018 to the £3,000,000,000 Euro Medium Term Note Programme, entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 15, 2017
- *10(a) - Amendment Agreement, dated March 13, 2018, between Western Power Distribution (West Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 and amended and restated on July 29, 2014
- *10(b) - Amendment Agreement, dated March 13, 2018, between Western Power Distribution (East Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 and amended and restated on July 29, 2014
- *10(c) - £130,000,000 Term Facility Agreement, dated March 20, 2018, between Western Power Distribution plc and HSBC Bank plc and Mizuho Bank, Ltd., as Mandated Lead Arrangers, and Mizuho Bank, Ltd., as Facility Agent.
- *10(d) - Amendment Agreement, dated March 21, 2018, between Western Power Distribution (South West) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Mizuho Bank, Ltd., as Facility Agent, relating to the £245 million Multicurrency Revolving Credit Facility Agreement originally dated January 12, 2012 and amended and restated on July 29, 2014
- *10(e) - £5,000,000 Letter of Credit Facility entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of February 20, 2018
- *10(f) - £75,000,000 Facility Letter entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of February 28, 2018
- *10(g) - Amendment No. 6 to the Amended and Restated Supplemental Executive Retirement Plan, dated March 23, 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 March 31, 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

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- 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 March 31, 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

- 101.INS - XBRL Instance Document
- 101.SCH - XBRL Taxonomy Extension Schema
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase
- 101.DEF - XBRL Taxonomy Extension Definition Linkbase
- 101.LAB - XBRL Taxonomy Extension Label Linkbase
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation

(Registrant)

Date: May 3, 2018

/s/ Stephen K. Breininger

Stephen K. Breininger
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: May 3, 2018

/s/ Marlene C. Beers

Marlene C. Beers
Controller
(Principal Financial Officer and Principal Accounting Officer)

LG&E and KU Energy LLC

(Registrant)

Louisville Gas and Electric Company

(Registrant)

Kentucky Utilities Company

(Registrant)

Date: May 3, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC ("Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

23 March 2018

Western Power Distribution (South Wales) plc

Issue of GBP 30,000,000 RPI Index Linked Senior Unsecured Notes due March 2036

**under the £3,000,000,000
Euro Medium Term Note Programme**

**Part A
Contractual Terms**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 15 September 2017 and the supplement dated 15 March 2018, which together constitute a base prospectus (the **Prospectus**) for the purposes of the Prospectus Directive (Directive 2003/71/EC), as amended (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus as so supplemented. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus as so supplemented. The Prospectus and the supplemental Prospectus are available for viewing at www.westernpower.co.uk and during normal business hours at Avonbank, Feeder Road, Bristol BS2 0TB and copies may be obtained from Avonbank, Feeder Road, Bristol BS2 0TB. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable Final Terms will also be published on the website of the London Stock Exchange: www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

1	Issuer:	Western Power Distribution (South Wales) plc
2	(i) Series Number:	2018-1
	(ii) Tranche Number:	1
	(iii) Date on which the Notes will be consolidated and form a single Series	Not Applicable
3	Specified Currency or Currencies:	Pounds Sterling ("£")
4	Aggregate Nominal Amount:	
	(i) Series:	£
	(ii) Tranche:	£

5	(i) Issue Price of Tranche: (i) Specified Denominations:	104.282 per cent. of the Aggregate Nominal Amount £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. No Notes in definitive form will be issued with a denomination of integral multiples above £199,000.
	(ii) Calculation Amount: (Applicable to Notes in definitive form)	£1,000
7	(i) Issue Date: (ii) Interest Commencement Date:	26 March 2018 Issue Date
8	Maturity Date:	26 March 2036
9	Interest Basis:	Index Linked Interest (further particulars specified below)
10	Redemption Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 per cent. of their nominal amount
11	Change of Interest Basis or Redemption/ Payment Basis:	Not Applicable
12	Put/Call Options:	Restructuring Put Option (further particulars specified in paragraph 22)
13	Date approval by Committee of the Board of Directors for issuance of Notes obtained:	28 February 2018
Provisions Relating to Interest (if any) Payable		
14	Fixed Rate Note Provisions	Applicable
	(i) Rate of Interest:	0.01 per cent. per annum payable semi-annually in arrear (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>))
	(ii) Interest Payment Dates:	26 March and 26 September in each year from and including 26 September 2018 to and including the Maturity Date
	(iii) Fixed Coupon Amount: (Applicable to Notes in definitive form)	£0.050 per Calculation Amount per semi-annual period (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>))
	(iv) Broken Amount: (Applicable to Notes in definitive form)	Not Applicable
	(v) Day Count Fraction:	Actual/Actual ICMA
	(vi) Determination Dates:	26 March and 26 September in each year
15	Floating Rate Note Provisions	Not Applicable
16	Zero Coupon Note Provisions	Not Applicable
17	Index Linked Interest Note Provisions	Applicable
	(i) Rate of Interest:	Fixed, calculated in accordance with paragraph 14 above
	(ii) Minimum Indexation Factor:	Not Applicable
	(iii) Maximum Indexation Factor:	Not Applicable

	(iv) Base Index Figure:	276.40645 calculated as an interpolation between RPI figures in December 2017 and January 2018
	(v) Limited Indexation Month(s):	Not Applicable
	(vi) Reference Gilt:	0.125 per cent. Index-Linked Treasury Stock due November 2036
	(vii) Index Figure applicable	3 months lag
18	Ratings Downgrade Rate Adjustment	Not Applicable
Provisions Relating to Redemption		
19	Index Linked Redemption Provisions	Applicable
	(i) Minimum Indexation Factor:	Not Applicable
	(ii) Maximum Indexation Factor:	Not Applicable
	(iii) Base Index Figure:	276.40645 calculated as an interpolation between RPI figures in December 2017 and January 2018
	(iv) Reference Gilt:	0.125 per cent. Index-Linked Treasury Stock due November 2036
	(v) Index Figure applicable	3 months lag
	(vi) Redeemable in part:	Not Applicable
20	Issuer Call	Not Applicable
21	Investor Put	Applicable (Condition 6(g) (<i>Redemption at the Option of Noteholders on a Restructuring Event</i>) applies)
	(i) Optional Redemption Date(s):	On the Put Date (as specified in the relevant Put Event Notice) (where (Condition 6(g) (<i>Redemption at the Option of Noteholders on a Restructuring Event</i>) applies)
	(ii) Notice Period:	As per Condition 6(g) (<i>Redemption at the Option of Noteholders on a Restructuring Event</i>)
	(iii) Optional Redemption Amount(s):	£1,000 (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>) and paragraph 19 above) per Calculation Amount
22	Restructuring Put Option	Applicable 6(g) (<i>Redemption at the Option of the Noteholders on a Restructuring Event</i>) applies
	(i) Optional Redemption Amount(s):	£1,000 (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>) and paragraph 19 above) per Calculation Amount
23	Final Redemption Amount:	£1,000 (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>) and paragraph 19 above) per Calculation Amount
24	Early Redemption Amount payable on redemption for taxation reasons or on event of default	£1,000 (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>) and paragraph 19 above) per Calculation Amount
General Provisions Applicable to the Notes		
25	Form of Notes:	Bearer

(i) if issued in Bearer form:

Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.

New Global Note/NSS:

Yes (NGN)

26 Additional Financial Centre(s) or other special provisions relating to payment dates:

Not Applicable

27 Talons for future Coupons to be attached to Definitive Notes: No

Signed on behalf of
Western Power Distribution (South Wales) plc

By: IAN WILLIAMS

Part B
Other Information

1 Listing and Admission to Trading

(i) Listing and admission to trading:

Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority and this is expected to be effective from 26 March 2018

(ii) Estimate of total expenses related to admission to trading:

£1750

2 Ratings

Ratings:

The Notes to be issued have been rated:

Baa1 (Stable) by Moody's Investors Service Limited (**Moody's**); and

A- (Stable) by Standard & Poor's Credit Market Services Europe Limited (**S&P**)

Each of Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended)

Interests of Natural and Legal Persons Involved in the Issue

Save for any fees payable to the Managers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

4 Reasons for the Offer, Estimated Net Proceeds and Total Expenses

(i) Reasons for the offer

See the section entitled "Use of proceeds" in the Prospectus

(ii) Estimated net proceeds:

Not Applicable

(iii) Estimated total expenses:

Not Applicable

5 Yield (Fixed Rate Notes only)

Indication of yield:

-0.223 per cent.

6 Operational Information

(i) ISIN Code:

XS1797949267

(ii) Common Code:

179794926

(iii) Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):

Not Applicable

(iv) Delivery:

Delivery against payment

(v) Names and addresses of additional Paying Agent(s) (if any):

Not applicable

(vi) Intended to be held in a manner which would allow Eurosystem eligibility:

Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the international central securities depositories (ICSD) as common safekeeper and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS, and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank (the ECB) being satisfied that Eurosystem eligibility criteria have been met.

7

Distribution

(i) Method of distribution:	Non-syndicated
(ii) If syndicated, names and addresses of Managers):	Not Applicable
(iii) Date of Dealer Agreement:	15 September 2017
(iv) Stabilisation Manager(s) (if any):	Not Applicable
(v) If non-syndicated, name and address of relevant Dealer:	HSBC Bank plc
(vi) U.S. Selling Restrictions:	Reg. S Compliance Category 2; TEFRA D not applicable
(vii) Prohibition of Sales to EEA Retail Investors:	Applicable

CONFORMED COPY

WESTERN POWER DISTRIBUTION (EAST MIDLANS) PLC

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

AND

WESTERN POWER DISTRIBUTION (WEST MIDLANS) PLC AS ISSUERS

AND

HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED AS NOTE TRUSTEE

AMENDED AND RESTATED TRUST DEED

RELATING TO THE £3,000,000,000 EURO MEDIUM TERM NOTE
PROGRAMME OF THE ISSUERS

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THIS AMENDED AND RESTATED TRUST DEED is made on 9 September 2016

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC, WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC, WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC and WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC** (each an "**Issuer**" and together the "**Issuers**"); and
- (2) **HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED** (the "**Note Trustee**", which expression, where the context so admits, includes any other trustee or the trustees for the time being of this Trust Deed).

WHEREAS:

- (A) The Issuers have established a note programme pursuant to which the Issuers propose to issue from time to time euro medium term notes in an aggregate nominal amount outstanding at any one time not exceeding the Programme Limit in accordance with the Dealer Agreement (the "**Programme**"). Notes issued by each Issuer are obligations solely of that Issuer (the "**Relevant Issuer**") and are without any recourse whatsoever to any other Issuer.
 - (B) The Issuers have made applications to the United Kingdom Financial Conduct Authority (the "**FCA**") for Notes issued under the Programme to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange plc. The Regulated Market of the London Stock Exchange plc is a regulated market for the purposes of Directive 2004/39/EC 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 9 September 2016 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 (East Midlands) plc and Western Power Distribution (West Midlands) plc and the Note Trustee entered into an amended and restated trust deed dated 10 September 2013 (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 9 September 2016 between the Issuers, Barclays Bank PLC, The Royal Bank of Scotland 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 S.A./N.V.

"**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 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 Services 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 9 September 2016 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 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 depository (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 depository in accordance with any other agreement between the Relevant Issuer and the relevant Dealer(s) and, in each case, the Agency Agreement.
- (b) Each temporary Global Note shall be printed or typed in the form or substantially in the form set out in Part 1 of Schedule 1 (*Form of CGN Temporary Global Note*) or Part 3 of Schedule 1 (*Form of NGN Temporary Global Note*), as the case may be and may be a facsimile. Each temporary Global Note shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by a person duly authorised by the Relevant Issuer on behalf of the Relevant Issuer and shall be authenticated by or on behalf of the Issuing and Paying Agent and shall, in the case of a Eurosystem-eligible NGN or in the case of a Non-eligible NGN in respect of which the Relevant Issuer has notified the Issuing and Paying Agent that effectuation is to be applicable, be effectuated by the Common Safekeeper acting on the instructions of the Issuing and Paying Agent. Each temporary Global Note so executed and authenticated shall be a binding and valid obligation of the Relevant Issuer and title thereto shall pass by delivery.
- (c) Each permanent Global Note shall be printed or typed in the form or substantially in the form set out in Part 2 of Schedule 1 (*Form of CGN Temporary Global Note*) or Part 4 of Schedule 1 (*Form of NGN Permanent Global Note*), as the case may be and may be a facsimile. Each permanent Global Note shall have annexed thereto a copy of the applicable Final Terms and shall be signed manually or in facsimile by a person duly authorised by the Relevant Issuer on behalf of the Relevant Issuer and shall be authenticated by or on behalf of the Issuing and Paying Agent and shall, in the case of a Eurosystem-eligible NGN or in the case of a Non-eligible NGN in respect of which the Relevant Issuer has notified the Issuing and Paying Agent that effectuation is to be applicable, be effectuated by the Common Safekeeper acting on the instructions of the Issuing and Paying Agent. Each permanent Global Note so executed and authenticated shall be a binding and valid obligation of the Relevant Issuer and title thereto shall pass by delivery.

3.2 Global Certificates

- (a) The Registered Notes of each Tranche will initially be represented by a Global Certificate. Global Certificates shall be deposited with a common depository for, and registered in the name of a nominee of such common depository for, Euroclear and Clearstream, Luxembourg.
- (b) Each Global Certificate, and each interest represented by a Global Certificate, shall be exchangeable and transferable only in accordance with the provisions of such Global Certificate, the Dealer Agreement, the Agency Agreement and the rules and operating procedures for the time being of Euroclear and Clearstream, Luxembourg (as the case may be).
- (c) Each Global Certificate shall be printed or typed in the form or substantially in the form set out in Part 5 of 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

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;
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- (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
 - (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;
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- (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*));
- (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
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Relevant Issuer upon which the Note Trustee can rely as conclusive evidence of repayment or discharge of the relevant Notes.

10. REMUNERATION AND INDEMNIFICATION OF THE NOTE TRUSTEE

10.1 Normal Remuneration

So long as any Note is outstanding each Relevant Issuer shall pay the Note Trustee as remuneration for its services as Note Trustee such sum on such dates in each case as the Note Trustee and the Relevant Issuer may agree in writing. Such remuneration shall accrue from day to day from the date of this Trust Deed. However, if any payment to a Noteholder or Couponholder of moneys due in respect of any Note or Coupon is improperly withheld or refused, such remuneration shall again accrue as from the date of such withholding or refusal until payment to such Noteholder or Couponholder is duly made.

10.2 Extra Remuneration

If an Event of Default (or an event has occurred which has led the Note Trustee, acting reasonably, to take steps to determine whether an Event of Default has occurred) shall have occurred in relation to a Relevant Issuer, such Relevant Issuer hereby agrees that the Note Trustee shall be entitled to be paid additional remuneration calculated at its normal hourly rates in force from time to time. In any other case, if the Note Trustee finds it expedient or necessary or is requested by such Relevant Issuer to undertake duties that they both agree to be of an exceptional nature or otherwise outside the scope of the Note Trustee's normal duties under this Trust Deed, such Relevant Issuer shall pay such additional remuneration as they may agree (and which may be calculated by reference to the Note Trustee's normal hourly rates in force from time to time) or, failing agreement as to any of the matters in this Subclause (or as to such sums referred to in Subclause 10.1 (*Normal Remuneration*)), as determined by a financial institution or person (acting as an expert) selected by the Note Trustee and approved by that Relevant Issuer or, failing such approval, nominated by the President for the time being of The Law Society of England and Wales. The expenses involved in such nomination and such financial institution's fee shall be borne by such Relevant Issuer. The determination of such financial institution or person shall be conclusive and binding on the Relevant Issuer, the Note Trustee, the Noteholders and the Couponholders.

10.3 Expenses

Each Relevant Issuer shall (on a several (and not joint) basis only) pay or discharge all costs, charges, Liabilities and expenses properly incurred by the Note Trustee and (if applicable) any receiver in relation to the preparation and execution of, the exercise of its powers and the performance of its duties under, and in any other manner in relation to, this Trust Deed and the other Programme documents including, but not limited to, legal and travelling expenses and any stamp, issue, registration, documentary or other taxes or duties paid by the Note Trustee in connection with any action taken or contemplated by or on behalf of the Note Trustee for enforcing or resolving any doubt concerning this Trust Deed, the Notes, the Coupons, the Talons or any other Programme document. Such costs, charges, Liabilities and expenses shall:

- (a) in the case of payments made by the Note Trustee before such demand, carry interest from the date of the demand at the rate of 2 per cent. per annum over the base rate of the Bank of England on the date on which the Note Trustee made such payments and
- (b) in other cases, carry interest at such rate from 30 days after the date of the demand or (where the demand specifies that payment is to be made on an earlier date) from such earlier date.

10.4 Value Added Tax

The Relevant Issuer shall in addition pay to the Note Trustee an amount equal to the amount of any value added tax or similar tax chargeable in respect of its remuneration (including extra remuneration and expenses) under this Trust Deed.

10.5 Indemnity

Without prejudice to the right of indemnity given by law to trustees, the Relevant Issuer will indemnify the Note Trustee and every receiver, attorney, manager, agent or other person appointed by the Note Trustee hereunder and keep it or him indemnified against all liabilities and expenses (including any VAT payable) to which it or he may become subject or which may be incurred by it or him in the negotiation and preparation of this Trust Deed and the other Programme documents and the execution or purported execution or exercise of any of its or his trusts, duties, rights, powers, authorities and discretions under this Trust Deed or any other Programme document or its or his functions under any such appointment or in respect of any other matter or thing done or omitted in any way relating to this Trust Deed or any other Programme document or any such appointment (including, without limitation, liabilities incurred in disputing or defending any of the foregoing).

10.6 Continuing Effect

Unless otherwise specifically stated in any discharge of this Trust Deed, the provisions of this Clause 10 shall continue in full force and effect notwithstanding such discharge and whether or not the Note Trustee is then the trustee of this Trust Deed.

PROVISIONS SUPPLEMENTAL TO THE TRUSTEE ACT 1925 AND THE TRUSTEE ACT 2000

11.1 Advice

The Note Trustee may act on the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant (including the auditors), surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Relevant Issuer, the Note Trustee or otherwise, whether or not addressed to the Note Trustee, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information). The Note Trustee will not be responsible to anyone for any liability occasioned by so acting. Any such advice, opinion or information may be sent or obtained by letter, telex, fax or electronic communication and the Note

Trustee shall not be liable for acting in good faith on any advice, opinion or information purporting to be conveyed by such means even if it contains an error or is not authentic.

11.2 **Note Trustee to Assume Performance**

The Note Trustee need not notify anyone of the execution of this Trust Deed or do anything to find out if a Restructuring Event or an Event of Default has occurred. Until it has actual knowledge or express notice to the contrary, the Note Trustee may assume that no such event has occurred and that the Relevant Issuer is performing all its obligations under this Trust Deed, the Notes, the Coupons and the Talons.

11.3 **Resolutions of Noteholders**

The Note Trustee shall not be responsible for having acted on a resolution purporting to be a Written Resolution or to have been passed at a meeting of Noteholders in respect of which minutes have been made and signed or a direction of a specified percentage of Noteholders even if it is later found that there was a defect in the constitution of the meeting or the passing of the resolution or the making of the directions or that the resolution was not valid or binding on the Noteholders or Couponholders.

11.4 **Certificate Signed by directors**

If the Note Trustee, in the exercise of its functions, requires to be satisfied or to have information as to any fact or the expediency of any act, it may call for and accept as sufficient evidence of that fact or the expediency of that act a certificate signed by any two directors of the Relevant Issuer as to that fact or to the effect that, in their opinion, that act is expedient and the Note Trustee need not call for further evidence and shall not be responsible for any Liability occasioned by acting on such a certificate.

11.5 **Certificate of Auditors**

A certificate of the Auditors that in their opinion a Subsidiary is or is not or was or was not at any particular time or during any particular period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Relevant Issuer, the Note Trustee, the Noteholders and the Couponholders;

11.6 **Delivery of Certificate**

The Note Trustee shall have no Liability whatsoever for any loss, cost, damages or expenses directly or indirectly suffered or incurred by the Relevant Issuer, any Noteholder, or any other person as a result of the delivery by the Note Trustee to the Relevant Issuer of a certificate as to material prejudice pursuant to Condition 12 (*Events of Default*) on the basis of an opinion formed by it in good faith.

11.7 **Deposit of Documents**

The Note Trustee may appoint as custodian, on any terms, any bank or entity whose business includes the safe custody of documents or any lawyer or firm of lawyers believed by it to be of good repute and may deposit this Trust Deed and any other documents with

such custodian and pay all sums due in respect thereof. The Note Trustee is not obliged to appoint a custodian of securities payable to bearer.

11.8 **Discretion**

The Note Trustee shall have absolute and uncontrolled discretion as to the exercise of its functions and shall not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience that may result from their exercise or non-exercise.

11.9 **Note Trustee's consent**

Any consent given by the Note Trustee for the purposes of this Trust Deed may be given on such terms and subject to such conditions (if any) as the Note Trustee may require.

11.10 **Agents**

Whenever it considers it expedient in the interests of the Noteholders, the Note Trustee (using due skill, care and attention) may, in the conduct of its trust business, instead of acting personally, employ on any terms and pay an agent selected by it, whether or not a lawyer or other professional person, to transact or conduct, or concur in transacting or conducting, any business and to do or concur in doing all acts required to be done by the Note Trustee (including the receipt and payment of money) and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

11.11 **Delegation**

Whenever it considers it expedient in the interests of the Noteholders, the Note Trustee (using due skill, care and attention) may delegate to any person on any terms (including power to sub-delegate) all or any of its functions and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

11.12 **Nominees**

In relation to any asset held by it under this Trust Deed, the Note Trustee (using due skill, care and attention) may appoint any person to act as its nominee on any terms and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

11.13 **Forged Notes**

The Note Trustee shall not be liable to any of the Issuers or any Noteholder or Couponholder by reason of having accepted as valid or not having rejected any Note,

Certificate, Coupon or Talon purporting to be such and later found to be forged or not authentic.

11.14 Confidentiality

Unless ordered to do so by a court of competent jurisdiction, the Note Trustee shall not be required to disclose to any Noteholder or Couponholder any confidential financial or other information made available to the Note Trustee by the Relevant Issuer.

11.15 Determinations Conclusive

As between itself and the Noteholders and Couponholders, the Note Trustee may determine all questions and doubts arising in relation to any of the provisions of this Trust Deed. Such determinations, whether made upon such a question actually raised or implied in the acts or proceedings of the Note Trustee, shall be conclusive and shall bind the Note Trustee, the Noteholders and the Couponholders.

11.16 Currency Conversion

Where it is necessary or desirable to convert any sum from one currency to another, it shall (unless otherwise provided hereby or required by law) be converted at such rate or rates, in accordance with such method and as at such date as may reasonably be specified by the Note Trustee but having regard to current rates of exchange, if available. Any rate, method and date so specified shall be binding on the Relevant Issuer, the Noteholders and the Couponholders.

11.17 Events of Default etc.

The Note Trustee shall not be bound to give notice to any person of the execution of this Trust Deed or to take any steps to ascertain whether any Event of Default has happened and, until it shall have actual knowledge or express notice to the contrary, the Note Trustee shall be entitled to assume that no such Event of Default has happened and that the Relevant Issuer is observing and performing all the obligations on its part contained in the Notes and Coupons and under this Trust Deed and no event has happened as a consequence of which any of the Notes may become repayable. Without prejudice to the foregoing, the Note Trustee may determine whether or not an Event of Default is in its opinion capable of remedy and/or materially prejudicial to the interests of the Noteholders. Any such determination shall be conclusive and binding on the Relevant Issuer, the Noteholders and the Couponholders.

11.18 Payment for and Delivery of Notes

The Note Trustee shall not be responsible for the receipt or application by the Relevant Issuer of the proceeds of the issue of the Notes, any exchange of Notes or the delivery of Notes to the persons entitled to them.

11.19 Notes Held by the Relevant Issuer etc.

In the absence of knowledge or express notice to the contrary, the Note Trustee may assume without enquiry (other than requesting a certificate under Clause 9(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

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**

None of the Note Trustee or its directors and officers should be precluded from entering into transactions in the ordinary course of business with any of the other parties or be accountable for the same (including any profit therefrom) to Noteholders or any person.

15. **MODIFICATION AND SUBSTITUTION**

15.1 **Modification**

The Note Trustee may agree without the consent of the Noteholders or Couponholders to any modification to this Trust Deed or the Conditions or the Notes or Coupons which is, in its opinion, of a formal, minor or technical nature or to correct a manifest error. The Note Trustee may also so agree to any modification to this Trust Deed or the Notes that is in its opinion not materially prejudicial to the interests of the Noteholders, but such power does not extend to any such modification as is mentioned in the proviso to paragraph 2 of Schedule 7 (*Provisions for Meetings of Noteholders*). Any such modification shall be binding on the Noteholders and the Couponholders and, unless the Note Trustee otherwise agrees, the Relevant Issuer shall cause such modification to be notified to the Noteholders as soon as practicable thereafter in accordance with the Conditions.

15.2 Substitution

- (a) The Note Trustee may, without the consent of the Noteholders or Couponholders, agree to the substitution of the Relevant Issuer's successor in business (the "**Substituted Obligor**") in place of the Relevant Issuer (or of any previous substitute under this Subclause) as the principal debtor under this Trust Deed, the Notes, the Coupons and the Talons provided that:
- (i) a deed is executed or undertaking given by the Substituted Obligor to the Note Trustee, in form and manner satisfactory to the Note Trustee, agreeing to be bound by this Trust Deed, the Notes, the Coupons and the Talons (with consequential amendments as the Note Trustee may deem appropriate, including any necessary change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed) as if the Substituted Obligor had been named in this Trust Deed, the Notes, the Certificates, the Coupons and the Talons as the principal debtor in place of the Relevant Issuer or any previous substitute under this Subclause;
 - (ii) the Note Trustee is satisfied that (i) the Substituted Obligor has obtained all governmental and regulatory approvals and consents necessary for its assumption of liability as principal debtor in respect of the Notes and the Coupons in place of the Relevant Issuer (or such previous substitute as aforesaid) and (ii) such approvals and consents are at the time of substitution in full force and effect;
 - (iii) the Note Trustee may request legal opinions in a form and manner acceptable to it in relation to the Substituted Obligor;
 - (iv) without prejudice to the rights of reliance of the Note Trustee under Subclause 15.2(b) the Note Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;
 - (v) Moody's and S&P have confirmed in writing to the Note Trustee that the substitution of the Substituted Obligor will not result in a downgrading of the then current credit rating of such rating agencies applicable to the class of debt represented by the Notes;
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- (vi) if the Substituted Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Relevant Issuer is subject generally (the "**Issuer's Territory**"), the Substituted Obligor shall (unless the Note Trustee otherwise agrees) give to the Note Trustee an undertaking satisfactory to the Note Trustee in terms corresponding to Condition 10 (*Taxation*) with the substitution for the references in that Condition to the Relevant Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed, the Notes, the Certificates, the Coupons and the Talons shall be read accordingly;
- (vii) if any two directors of the Substituted Obligor certify that it will be solvent immediately prior to such substitution, the Note Trustee need not have regard to the Substituted Obligor's financial condition, profits or prospects or compare them with those of the Relevant Issuer or any previous substitute under this Subclause;
- (viii) the Relevant Issuer, and the Substituted Obligor comply with such other requirements as the Note Trustee may direct in the interests of the Noteholders and the Couponholders; and
- (ix) (unless the Relevant Issuer's successor in business is the Substituted Obligor) the obligations of the Substituted Obligor under this Trust Deed, the Notes and the Coupons are guaranteed by the Relevant Issuer to the Note Trustee's satisfaction.

(b) **Release of Substituted Issuer**

An agreement by the Note Trustee pursuant to this Clause 15.2 shall, if so expressed, release the Relevant Issuer (or a previous substitute) from any or all of its obligations under this Trust Deed, the Notes, the Coupons and the Talons. Notice of the substitution shall be given to the Noteholders within 14 days of the execution of such documents and compliance with such requirements.

(c) **Completion of Substitution**

On completion of the formalities set out in this Clause 15.2, the Substituted Obligor shall be deemed to be named in this Trust Deed, the Notes, the Certificates, the Coupons and the Talons as the principal debtor in place of the Relevant Issuer (or of any previous substitute) and this Trust Deed, the Notes, the Certificates, the Coupons and the Talons shall be deemed to be amended as necessary to give effect to the substitution.

16. **APPOINTMENT, RETIREMENT AND REMOVAL OF THE NOTE TRUSTEE**

16.1 **Appointment**

Subject as provided in Clause 16.2 (*Retirement and Removal*), each Relevant Issuer has the power of appointing new trustees but no-one may be so appointed in relation to a

Series of Notes unless previously approved by an Extraordinary Resolution of the Noteholders of such Series of Notes. A trust corporation shall at all times be a Note Trustee and may be the sole Note Trustee. Any appointment of a new Note Trustee shall be notified by the Relevant Issuer to the Agents and to the Noteholders as soon as practicable.

16.2 Retirement and Removal

Any Note Trustee may retire at any time on giving at least three calendar months' written notice to the Issuers without giving any reason or being responsible for any costs occasioned by such retirement and the Noteholders of any Series may by Extraordinary Resolution remove any Note Trustee in relation to such Series provided that the retirement or removal of a sole trust corporation shall not be effective until a trust corporation is appointed as successor Note Trustee. If a sole trust corporation gives notice of retirement or an Extraordinary Resolution is passed for its removal, the Relevant Issuer shall use all reasonable endeavours to procure that another trust corporation be appointed as Note Trustee but if it fails to do so within 30 days of the expiry of such three month notice period, the Note Trustee shall have the power to appoint a new Note Trustee.

16.3 Co-Note Trustees

The Note Trustee may, despite Subclause 16.1 (*Appointment*), by written notice to the Relevant Issuer (with a copy to Moody's and S&P) appoint anyone to act as an additional Note Trustee jointly with the Note Trustee:

- (a) if the Note Trustee considers the appointment to be in the interests of the Noteholders and/or the Couponholders; or
- (b) to conform with a legal requirement, restriction or condition in a jurisdiction in which a particular act is to be performed; or
- (c) to obtain a judgment or to enforce a judgment or any provision of this Trust Deed in any jurisdiction.

Subject to the provisions of this Trust Deed the Note Trustee may confer on any person so appointed such functions as it thinks fit. The Note Trustee may by written notice to each Relevant Issuer and that person remove that person. At the Note Trustee's request, each Relevant Issuer shall forthwith do all things as may be required to perfect such appointment or removal and each Relevant Issuer irrevocably appoints the Note Trustee as its attorney in its name and on its behalf to do so.

16.4 Competence of a Majority of Note Trustees

If there are more than two Note Trustees the majority of them shall be competent to perform the Note Trustee's functions provided the majority includes a trust corporation.

16.5 Merger

Any corporation into which the Note Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or

consolidation to which the Note Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Note Trustee, shall be the successor of the Note Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Clause, without the execution or filing of any paper or any further act on the part of any of the parties thereto.

17. NOTES HELD IN CLEARING SYSTEMS AND COUPONHOLDERS

17.1 Notes Held in Clearing Systems

So long as any Global Note is, or any Notes represented by a Global Certificate are, held on behalf of a clearing system, in considering the interests of Noteholders, the Note Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders or participants with entitlements to any such Global Note or the Registered Notes and may consider such interests on the basis that such accountholders or participants were the holder(s) thereof.

17.2 Couponholders

No notices need be given to Couponholders. They shall be deemed to have notice of the contents of any notice given to Noteholders. Even if it has express notice to the contrary, in exercising any of its functions by reference to the interests of the Noteholders, the Note Trustee shall assume that the holder of each Note is the holder of all Coupons and Talons relating to it.

18. CURRENCY INDEMNITY

18.1 Currency of Account and Payment

The Contractual Currency is the sole currency of account and payment for all sums payable by the Relevant Issuer under or in connection with this Trust Deed, the Notes and the Coupons, including damages.

18.2 Extent of Discharge

An amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Relevant Issuer or otherwise), by the Note Trustee or any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Relevant Issuer shall only discharge the Relevant Issuer to the extent of the Contractual Currency amount that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

18.3 Indemnity

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under this Trust Deed, the Notes or the Coupons,

each Relevant Issuer (on a several (and not joint) basis only) shall indemnify it against any Liabilities sustained by it as a result. In any event, each Relevant Issuer (on a several (and not joint) basis only) shall indemnify the recipient against the cost of making any such purchase.

18.4 **Indemnity Separate**

The indemnities in this Clause 18 (*Currency Indemnity*) and in Subclause 10.5 (*Indemnity*) constitute separate and independent obligations from the other obligations in this Trust Deed, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by the Note Trustee and/or any Noteholder or Couponholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under this Trust Deed, the Notes and/or the Coupons or any other judgment or order. Any such Liability as referred to in Subclause 18.3 (*Indemnity*) shall be deemed to constitute a Liability suffered by the Note Trustee, the Noteholders and the Couponholders and no proof or evidence of any actual Liability shall be required by the Relevant Issuer or its liquidator(s).

19. **COMMUNICATIONS**

19.1 **Method**

Each communication under this Trust Deed shall be made in English by fax, electronic communication or otherwise in writing. Each communication or document to be delivered to any party under this Trust Deed shall be sent to that party at the fax number, postal address or electronic address, and marked for the attention of the person (if any), from time to time designated by that party to each other party for the purpose of this Trust Deed. The initial fax number, postal address, electronic address and person so designated by the parties under this Trust Deed are set out in the Procedures Memorandum.

19.2 **Deemed Receipt**

Any communication from any party to any other under this Trust Deed shall be effective, (if by fax) when the relevant delivery receipt is received by the sender, (if in writing) when delivered and (if by electronic communication) when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Trust Deed which is to be sent by fax or electronic communication will be written legal evidence.

19.3 **No Notice to Couponholders**

Neither the Note Trustee nor the Relevant Issuer shall be required to give any notice to the Couponholders for any purpose under this Trust Deed and the Couponholders shall

be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with Condition 18 (*Notices*).

20. SEVERAL OBLIGATIONS AND NO CROSS-DEFAULT

Notwithstanding any other provision of this Trust Deed (or any other document entered into in connection with the issue of the Notes), the obligations of each Issuer are several and if a misrepresentation, breach, default or event of default (or anything analogous thereto) (a "**Default**") occurs as a result of any act or omission or state of affairs which, in each case, relates only to an Issuer, such Default shall be deemed not to have occurred in relation to the other Issuers (the "**Other Issuers**") and, accordingly, no liability, right, action, remedy, demand, claim, acceleration of any liability or other enforcement or remedied action may be taken against the Other Issuers.

21. FURTHER PROVISIONS

21.1 Partial Invalidity

If, at any time, any provision of this Trust Deed is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

21.2 Counterparts

This Trust Deed may be executed manually or by facsimile in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of this Trust Deed.

22. GOVERNING LAW AND JURISDICTION

22.1 Governing Law

This Trust Deed, the Notes and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with English law.

22.2 Jurisdiction

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with this Trust Deed, the Notes, the Coupons or the Talons and accordingly any legal action or proceedings arising out of or in connection with this Trust Deed, the Notes, the Coupons or the Talons ("**Proceedings**") may be brought in such courts. The Issuers irrevocably submit to the jurisdiction of such courts and waive any objections to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Clause is for the benefit of each of the Note Trustee, the Noteholders and the Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent

jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

22.3 Service of process

Each Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to such Issuer at Avonbank, Feeder Road, Bristol BS2 0TB (for the attention of Ian Williams, Treasurer), or to such other person with an address in England or Wales and/or at such other address in England or Wales as such Issuer may specify by notice in writing to the Note Trustee and the Noteholders. Nothing in this paragraph shall affect the right of the Note Trustee or any of the Noteholders to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

**SCHEDULE 1
FORM OF GLOBAL NOTES**

**PART 1
FORM OF CGN TEMPORARY GLOBAL NOTE**

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

TEMPORARY GLOBAL NOTE

Temporary Global Note No. [•]

This temporary Global Note is issued in respect of the Notes (the **Notes**) of the Tranche and Series specified in Part A of the Second Schedule hereto of [ISSUER] (the "**Issuer**").

Interpretation and Definitions

References in this temporary Global Note to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 9 September 2016 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, the case may be, the portion of the nominal amount hereof so exchanged shall be endorsed by or on behalf of the Issuing and Paying Agent in the First Schedule hereto, whereupon the nominal amount hereof shall be reduced for all purposes by the amount so exchanged and endorsed.

Benefit of Conditions

Except as otherwise specified herein, this temporary Global Note is subject to the Conditions and the Trust Deed and, until the whole of this temporary Global Note is exchanged for equivalent interests in a permanent Global Note or for Definitive Notes or cancelled, the holder of this temporary Global Note shall in all respects be entitled to the same benefits as if it were the holder of the permanent Global Note (or the relevant part of it) or the Definitive Notes, as the case may be, for which it may be exchanged as if such permanent Global Note or Definitive Notes had been issued on the Issue Date.

Payments

No person shall be entitled to receive any payment in respect of the Notes represented by this temporary Global Note that falls due on or after the Exchange Date unless, upon due presentation of this temporary Global Note for exchange, delivery of (or, in the case of a subsequent exchange, due endorsement of) a permanent Global Note or delivery of Definitive Notes, as the case may be, is improperly withheld or refused by or on behalf of the Issuer.

Payments due in respect of a D Rules Note before the Exchange Date shall only be made in relation to such nominal amount of this temporary Global Note with respect to which there shall have been Certification dated no earlier than such due date for payment.

Any payments that are made in respect of this temporary Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions. If any payment in full of principal is made in respect of any Note represented by this temporary Global Note, the portion of this temporary Global Note representing such Note shall be cancelled and the amount so cancelled shall be endorsed by or on behalf of the Issuing and Paying Agent in the First Schedule hereto (such endorsement being prima facie evidence that the payment in question has been made) whereupon the nominal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed. If any other payments are made in respect of the Notes represented by this temporary Global Note, a record of each such payment shall be endorsed by or on behalf of the Issuing and Paying Agent on an additional schedule hereto (such endorsement being *prima facie* evidence that the payment in question has been made).

For the purposes of any payments made in respect of this temporary Global Note, the words "in the relevant place of presentation" shall not apply in the definition of **business day** in Condition 9(h) (*Non-Business Day*).

Cancellation

Cancellation of any Note represented by this temporary Global Note that is required by the Conditions to be cancelled (other than upon its redemption) shall be effected by reduction in

the nominal amount of this temporary Global Note representing such Note on its presentation to or to the order of the Issuing and Paying Agent for endorsement in the First Schedule hereto, whereupon the nominal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Notices

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this temporary Global Note may be given by their being delivered (so long as this temporary Global Note is held on behalf of Euroclear and Clearstream, Luxembourg or any other clearing system) to Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, or otherwise to the holder of this temporary Global Note, rather than by publication as required by the Conditions.

No provision of this temporary Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This temporary Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent.

This temporary Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this temporary Global Note to be duly signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This temporary Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

HSBC BANK PLC
as Issuing and Paying Agent

By:

Authorised Signatory
For the purposes of authentication only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

The First Schedule

Nominal amount of Notes represented by this temporary Global Note

The following (i) issue of Notes initially represented by this temporary Global Note, (ii) exchanges of the whole or a part of this temporary Global Note for interests in a permanent Global Note or for Definitive Notes and/or (iii) cancellations or forfeitures of interests in this temporary Global Note have been made, resulting in the nominal amount of this temporary Global Note specified in the latest entry in the fourth column below:

Date	Amount of decrease in nominal amount of this temporary Global Note	Reason for decrease in nominal amount of this temporary Global Note (exchange, cancellation or forfeiture)	Nominal amount of this temporary Global Note on issue or following such decrease	Notation made by or on behalf of the Issuing and Paying Agent
Issue Date	not applicable	not applicable		

The Second Schedule

Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Second Schedule]

PART 2
FORM OF CGN PERMANENT GLOBAL NOTE

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

PERMANENT GLOBAL NOTE

Permanent Global Note No. [•]

This permanent Global Note is issued in respect of the Notes (the **Notes**) of the Tranche(s) and Series specified in Part A of the Third Schedule hereto of [ISSUER] (the **Issuer**).

Interpretation and Definitions

References in this permanent Global Note to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 9 September 2016 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this permanent Global Note (including the supplemental definitions and any modifications or additions set out in Part A of the Third Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this permanent Global Note shall have the meanings given to them in the Conditions or the Trust Deed.

Aggregate Nominal Amount

The aggregate nominal amount from time to time of this permanent Global Note shall be an amount equal to the aggregate nominal amount of the Notes as shall be shown by the latest entry in the fourth column of the First Schedule hereto, which shall be completed by or on behalf of the Issuing and Paying Agent upon (i) the exchange of the whole or a part of the temporary Global Note initially representing the Notes for a corresponding interest herein (in the case of Notes represented by a temporary Global Note upon issue), (ii) the issue of the Notes represented hereby (in the case of Notes represented by this permanent Global Note upon issue), (iii) the exchange of the whole or, where the limited circumstances so permit, a part of this permanent Global Note for Definitive Notes and/or (iv) the redemption or purchase and cancellation of Notes represented hereby, all as described below.

Promise to Pay

Subject as provided herein, the Issuer, for value received, hereby promises to pay to the bearer of this permanent Global Note, upon presentation and (when no further payment is due in respect of this permanent Global Note) surrender of this permanent Global Note, on the Maturity Date

(or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the conditions) the amount payable upon redemption under the Conditions in respect of the aggregate nominal amount of Notes represented by this permanent Global Note and (unless this permanent Global Note does not bear interest) to pay interest in respect of the Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Exchange

This permanent Global Note is exchangeable (free of charge to the holder) on or after the Exchange Date in whole but not, except as provided in the next paragraph, in part for the Definitive Notes if this permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

"**Exchange Date**" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and, except in the case of exchange above, in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System, are located.

Any such exchange may be effected on or after an Exchange Date by the holder of this permanent Global Note surrendering this permanent Global Note to or to the order of the Issuing and Paying Agent. In exchange for this permanent Global Note, the Issuer shall deliver, or procure the delivery of, duly executed and authenticated Definitive Notes in an aggregate nominal amount equal to the nominal amount of this permanent Global Note submitted for exchange (if appropriate, having attached to them all Coupons (and, where appropriate, Talons) in respect of interest that has not already been paid on this permanent Global Note), security printed and substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of the Third Schedule hereto.

Benefit of Conditions

Except as otherwise specified herein, this permanent Global Note is subject to the Conditions and the Trust Deed and, until the whole of this permanent Global Note is exchanged for Definitive Notes or cancelled, the holder of this permanent Global Note shall in all respects be entitled to the same benefits as if it were the holder of the Definitive Notes for which it may be exchanged and as if such Definitive Notes had been issued on the Issue Date.

Payments

No person shall be entitled to receive any payment in respect of the Notes represented by this permanent Global Note that falls due after an Exchange Date for such Notes, unless upon due presentation of this permanent Global Note for exchange, delivery of Definitive Notes is improperly withheld or refused by or on behalf of the Issuer or the Issuer does not perform or

comply with any one or more of what are expressed to be its obligations under any Definitive Notes.

Payments in respect of this permanent Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions. A record of each such payment shall be endorsed on the First or Second Schedule hereto, as appropriate, by the Issuing and Paying Agent or by the relevant Paying Agent, for and on behalf of the Issuing and Paying Agent, which endorsement shall (until the contrary is proved) be *prima facie* evidence that the payment in question has been made.

For the purposes of any payments made in respect of this permanent Global Note, the words "in the relevant place of presentation" shall not apply in the definition of **business day** in Condition 9(h) (*Non-Business Days*).

Prescription

Claims in respect of principal and interest (as each is defined in the Conditions) in respect of this permanent Global Note shall become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

Meetings

For the purposes of any meeting of Noteholders, the holder of this permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes.

Cancellation

Cancellation of any Note represented by this permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) shall be effected by reduction in the nominal amount of this permanent Global Note representing such Note on its presentation to or to the order of the Issuing and Paying Agent for endorsement in the First Schedule hereto, whereupon the nominal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes may only be purchased by the Issuer if they are purchased together with the right to receive all future payments of interest thereon.

Issuer's Options

Any option of the Issuer provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.

Noteholders' Options

Any option of the Noteholders provided for in the Conditions may be exercised by the holder of this permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting this permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation accordingly in the Fourth Schedule hereto.

Notices

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this permanent Global Note may be given by their being delivered (so long as this permanent Global Note is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system) to Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, or otherwise to the holder of this permanent Global Note, rather than by publication as required by the Conditions.

Negotiability

This permanent Global Note is a bearer document and negotiable and accordingly:

- (a) is freely transferable by delivery and such transfer shall operate to confer upon the transferee all rights and benefits appertaining hereto and to bind the transferee with all obligations appertaining hereto pursuant to the Conditions
- (b) the holder of this permanent Global Note is and shall be absolutely entitled as against all previous holders to receive all amounts by way of amounts payable upon redemption, interest or otherwise payable in respect of this permanent Global Note and the Issuer has waived against such holder and any previous holder of this permanent Global Note all rights of set-off or counterclaim that would or might otherwise be available to it in respect of the obligations evidenced by this Global Note and
- (c) payment upon due presentation of this permanent Global Note as provided herein shall operate as a good discharge against such holder and all previous holders of this permanent Global Note.

No provisions of this permanent Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This permanent Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent.

This permanent Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this permanent Global Note to be duly signed on its behalf.

dated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This permanent Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

HSBC BANK PLC
as Issuing and Paying Agent

By:

Authorised Signatory
For the purposes of authentication only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 1650) AND 1287(a) OF THE INTERNAL REVENUE CODE.

The First Schedule

Nominal amount of Notes represented by this permanent Global Note

The following (i) issues of Notes initially represented by this permanent Global Note, (ii) exchanges of interests in a temporary Global Note for interests in this permanent Global Note, (iii) exchanges of the whole or a part of this permanent Global Note for Definitive Notes, (iv) cancellations or forfeitures of interests in this permanent Global Note and/or (v) payments of amounts payable upon redemption in respect of this permanent Global Note have been made, resulting in the nominal amount of this permanent Global Note specified in the latest entry in the fourth column:

Date	Amount of increase/decrease in nominal amount of this permanent Global Note	Reason for increase/decrease in nominal amount of this permanent Global Note (initial issue, exchange, cancellation, forfeiture or payment, stating amount of payment made)	Nominal amount of this permanent Global Note following such increase/decrease	Notation made by or on behalf of the Issuing and Paying Agent
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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:

Due date of payment	Date of payment	Amount of interest	Notation made by or on behalf of the Issuing and Paying Agent
<hr/>			

The Third Schedule

Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Third Schedule.]

The Fourth Schedule

Exercise of Noteholders' Option

The following exercises of the option of the Noteholders provided for in the Conditions have been made in respect of the stated nominal amount of this permanent Global Note:

Date of exercise	Nominal amount of this permanent Global Note in respect of which exercise is made	Date of which exercise of such option is effective	Notation made by or on behalf of the Issuing and Paying Agent
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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 9 September 2016 between the Issuer, and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this temporary Global Note (including the supplemental definitions and any modifications or additions set out in Part A of the Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this temporary Global Note shall have the meanings given to them in the Conditions or the Trust Deed. If the Second Schedule hereto specifies that the applicable TEFRA exemption is either "C Rules" or "not applicable", this temporary Global Note is a "C Rules Note", otherwise this temporary Global Note is a "D Rules Note".

Aggregate Nominal Amount

The aggregate nominal amount from time to time of this temporary Global Note shall be an amount equal to the aggregate nominal amount of the Notes from time to time entered in the records of both Euroclear and Clearstream, Luxembourg (together the "**relevant Clearing Systems**"), which shall be completed and/or amended, as the case may be, upon (i) the issue of Notes represented hereby, (ii) the exchange of the whole or a part of this temporary Global Note for a corresponding interest recorded in the records of the relevant Clearing Systems in a permanent Global Note or for Definitive Notes and/or (iii) the redemption or purchase and cancellation of Notes represented hereby, all as described below.

The records of the relevant Clearing Systems (which expression in this temporary Global Note means the records that each relevant Clearing System holds for its customers which reflect the amount of such customers' interests in the Notes, but excluding any interest in any Notes of one Clearing System sharing the records of another Clearing System) shall be conclusive evidence of the nominal amount of the Notes represented by this temporary Global Note and, for these

purposes, a statement issued by a relevant Clearing System (which statement shall be made available to the bearer upon request) stating the nominal amount of Notes represented by the temporary Global Note at any time shall be conclusive evidence of the records of the relevant Clearing Systems at that time.

Promise to Pay

Subject as provided herein, the Issuer, for value received, promises to pay to the bearer of this temporary Global Note, upon presentation and (when no further payment is due in respect of this temporary Global Note) surrender of this temporary Global Note, on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the aggregate nominal amount of Notes represented by this temporary Global Note and (unless this temporary Global Note does not bear interest) to pay interest in respect of the Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Exchange

On or after the first day following the expiry of 40 days after the Issue Date (the "**Exchange Date**"), this temporary Global Note may be exchanged (free of charge to the holder) in whole or (in the case of a D Rules Note only) from time to time in part by its presentation and, on exchange in full, surrender to or to the order of the Issuing and Paying Agent for interests recorded in the records of the relevant Clearing Systems in a permanent Global Note or, if so specified in Part A of the Schedule hereto, for Definitive Notes in an aggregate nominal amount equal to the nominal amount of this temporary Global Note submitted for exchange provided that, in the case of any part of a D Rules Note submitted for exchange for interests recorded in the records of the relevant Clearing Systems in a permanent Global Note or Definitive Notes, there shall have been Certification with respect to such nominal amount submitted for such exchange dated no earlier than the Exchange Date.

"**Certification**" means the presentation to the Issuing and Paying Agent of a certificate or certificates with respect to one or more interests in this temporary Global Note, signed by Euroclear or Clearstream, Luxembourg, substantially to the effect set out in Schedule 4 (*Clearing System Certificate of Non-U.S. Citizenship and Residency*) to the Agency Agreement to the effect that it has received a certificate or certificates substantially to the effect set out in Schedule 3 (*Accountholder Certificate of Non-U.S. Citizenship and Residency*) to the Agency Agreement with respect thereto and that no contrary advice as to the contents thereof has been received by Euroclear or Clearstream, Luxembourg, as the case may be.

Upon the whole or a part of this temporary Global Note being exchanged for a permanent Global Note, such permanent Global Note shall be exchangeable in accordance with its terms for Definitive Notes.

The Definitive Notes for which this temporary Global Note or a permanent Global Note may be exchangeable shall be duly executed and authenticated, shall, in the case of Definitive Notes,

have attached to them all Coupons (and, where appropriate, Talons) in respect of interest that has not already been paid on this temporary Global Note or the permanent Global Note, as the case may be, shall be security printed and shall be substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of Part A of the Schedule hereto.

On any exchange of a part of this temporary Global Note for an equivalent interest recorded in the records of the relevant Clearing Systems in a permanent Global Note or for Definitive Notes, as the case may be, the Issuer shall procure that details of the portion of the nominal amount hereof so exchanged shall be entered pro rata in the records of the relevant Clearing Systems and upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this temporary Global Note shall be reduced by an amount equal to such portion so exchanged.

Benefit of Conditions

Except as otherwise specified herein, this temporary Global Note is subject to the Conditions and the Trust Deed and, until the whole of this temporary Global Note is exchanged for equivalent interests in a permanent Global Note or for Definitive Notes or cancelled, the holder of this temporary Global Note shall in all respects be entitled to the same benefits as if it were the holder of the permanent Global Note (or the relevant part of it) or the Definitive Notes, as the case may be, for which it may be exchanged as if such permanent Global Note or Definitive Notes had been issued on the Issue Date.

Payments

No person shall be entitled to receive any payment in respect of the Notes represented by this temporary Global Note that falls due on or after the Exchange Date unless, upon due presentation of this temporary Global Note for exchange, delivery of (or, in the case of a subsequent exchange, a corresponding entry being recorded in the records of the relevant Clearing Systems) a permanent Global Note or delivery of Definitive Notes, as the case may be, is improperly withheld or refused by or on behalf of the Issuer.

Payments due in respect of a D Rules Note before the Exchange Date shall only be made in relation to such nominal amount of this temporary Global Note with respect to which there shall have been Certification dated no earlier than such due date for payment.

Any payments that are made in respect of this temporary Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions and each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant Clearing Systems referred to herein shall not affect such discharge. If any payment in full or in part of principal is made in respect of any Note represented by this temporary Global Note the Issuer shall procure that details of such payment shall be entered pro rata in the records of the relevant Clearing Systems and, upon any such entry being made, the nominal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this temporary Global Note shall be reduced by the aggregate nominal amount of the Notes so redeemed. If any other payments are made in respect of the Notes represented by this temporary Global Note, the Issuer shall procure that

a record of each such payment shall be entered pro rata in the records of the relevant Clearing Systems.

For the purposes of any payments made in respect of this temporary Global Note, the words "in the relevant place of presentation" shall not apply in the definition of "business day" in Condition 9(h) (*Non-Business Day*).

Cancellation

On cancellation of any Note represented by this temporary Global Note that is required by the Conditions to be cancelled (other than upon its redemption), the Issuer shall procure that details of such cancellation shall be entered pro rata in the records of the relevant Clearing systems and, upon any such entry being made, the nominal amount of the Note recorded in the records of the relevant Clearing Systems and represented by this temporary Global Note shall be reduced by the aggregate nominal amount of the Notes so cancelled.

Notices

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this temporary Global Note may be given by their being delivered (so long as this temporary Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg or any other permitted clearing system) to Euroclear, Clearstream, Luxembourg or such other permitted clearing system, as the case may be, or otherwise to the holder of this temporary Global Note, rather than by publication as required by the Conditions.

No provision of this temporary Global Note shall alter or impair the obligation of the Issuer to pay the principal and premium of and interest on the Notes when due in accordance with the Conditions.

This temporary Global Note shall not be valid or become obligatory for any purpose until authenticated by or on behalf of the Issuing and Paying Agent and effectuated by the entity appointed as Common Safekeeper by the relevant Clearing Systems.

This temporary Global Note and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this temporary Global Note to be duly signed on its behalf.

Dated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This temporary Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

HSBC BANK PLC

Issuing and Paying Agent

By:

Authorised Signatory

For the purposes of authentication only.

Effectuation

This temporary Global Note

is effectuated by or on behalf of the Common Safekeeper.

[COMMON SAFEKEEPER]

as Common Safekeeper

By:

Authorised Signatory

For the purposes of effectuation only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

Schedule

Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Schedule]

PART 4
FORM OF NGN PERMANENT GLOBAL NOTE

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

PERMANENT GLOBAL NOTE

Permanent Global Note No. [•]

This permanent Global Note is issued in respect of the Notes (the "Notes") of the Tranche(s) and Series specified in Part A of the Schedule hereto of [ISSUER] (the "Issuer").

Interpretation and Definitions

References in this permanent Global Note to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 9 September 2016 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 presented 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.

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

Issuing and Paying Agent

By:

Authorised Signatory

For the purposes of authentication only.

Effectuation

This permanent Global Note

is effectuated by or on behalf of the Common Safekeeper.

[COMMON SAFEKEEPER]

as Common Safekeeper

By:

Authorised Signatory

For the purposes of effectuation only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

Schedule

Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Schedule.]

PART 5
FORM OF GLOBAL CERTIFICATE

THIS SECURITY HAS NOT AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND THE TRUST DEED AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

GLOBAL CERTIFICATE

Global Certificate No. [•]

This Global Certificate is issued in respect of the nominal amount specified above of the Notes (the "**Notes**") of the Tranche and Series specified in Part A of the Schedule hereto of [ISSUER] (the "**Issuer**"). This Global Certificate certifies that the person whose name is entered in the Register (the "**Registered Holder**") is registered as the holder of an issue of Notes of the nominal amount, specified currency and specified denomination set out in Part A of the Schedule hereto.

Interpretation and Definitions

References in this Global Certificate to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 9 September 2016 between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee, as such form is supplemented and/or modified and/or superseded by the provisions of this Global Certificate (including the supplemental definitions and any modifications or additions set out in Part A of the Schedule hereto), which in the event of any conflict shall prevail). Other capitalised terms used in this Global Certificate shall have the meanings given to them in the Conditions or the Trust Deed.

Promise to Pay

The Issuer, for value received, promises to pay to the holder of the Notes represented by this Global Certificate upon presentation and (when no further payment is due in respect of the Notes represented by this Global Certificate) surrender of this Global Certificate on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption under the Conditions in respect of the Notes represented by this Global Certificate and (unless the Notes represented by this Certificate do not bear interest) to pay interest in respect of such Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the methods of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes represented by this Global Certificate, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions. Each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

For the purposes of this Global Certificate, (a) the holder of the Notes represented by this Global Certificate is bound by the provisions of the Agency Agreement, (b) the Issuer certifies that the Registered Holder is, at the date hereof, entered in the Register as the holder of the Notes represented by this Global Certificate, (c) this Global Certificate is evidence of entitlement only, (d) title to the Notes represented by this Global Certificate passes only on due registration on the Register, and (e) only the holder of the Notes represented by this Global Certificate is entitled to payments in respect of the Notes represented by this Global Certificate.

Transfer of Notes represented by permanent Global Certificates

If the Schedule hereto states that the Notes are to be represented by a permanent Global Certificate on issue, transfers of the holding of Notes represented by this Global Certificate pursuant to Condition 2(b) (*Transfer of Registered Notes*) may only be made in part:

- (a) if the Notes represented by this Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or
- (b) with the consent of the Issuer

provided that, in the case of the first transfer of part of a holding pursuant to (a) above, the holder of the Notes represented by this Global Certificate has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer. Where the holding of Notes represented by this Global Certificate is only transferable in its entirety, the Certificate issued to the transferee upon transfer of such holding shall be a Global Certificate. Where transfers are permitted in part, Certificates issued to transferees shall not be Global Certificates unless the transferee so requests and certifies to the Registrar that it is, or is acting as a nominee for, Clearstream, Luxembourg, Euroclear and/or an Alternative Clearing System.

Issuer's Options

In connection with an exercise of the option contained in Condition 6(e) (*Redemption at the Option of the Relevant Issuer*) in relation to some only of the Notes, the Notes represented by this Global Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

Noteholders' Options

Any option of the Noteholders provided for in the Conditions may be exercised by the Noteholder giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent, as set out in the Conditions, substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by the permanent Global Certificate shall be reduced by the aggregate nominal amount stated in the relevant exercise notice.

Notices

Notwithstanding Condition 18 (*Notices*), so long as this Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by this Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

Determination of Entitlement

This Global Certificate is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the Noteholder is entitled to payment in respect of this Global Certificate.

Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by this Global Certificate shall be treated as being entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes.

This Global Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar and in the case of Registered Notes held under the NSS only, effectuated by the entity appointed as Common Safekeeper by the relevant Clearing Systems.

This Global Certificate and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this Global Certificate to be signed on its behalf.

Dated as of the Issue Date.

ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This Global Certificate is authenticated by or on behalf of the Registrar.

HSBC BANK PLC
as Registrar

By:

Authorised Signatory
For the purposes of authentication only.

Effectuation

This Global Certificate is effectuated
by or on behalf of the Common Safekeeper

[COMMON SAFEKEEPER]
as Common Safekeeper

By:

Authorised Signatory
for the purposes of effectuation of Registered Notes held through the NSS only

Form of Transfer

For value received the undersigned transfers to

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS OF TRANSFEREE)

[•] nominal amount of the Notes represented by this Global Certificate, and all rights under them.

Dated

Signed

Certifying Signature

Notes:

- (a) The signature of the person effecting a transfer shall conform to a list of duly authorised specimen signatures supplied by the holder of the Notes represented by this Global Certificate or (if such signature corresponds with the name as it appears on the face of this Global Certificate) be certified by a notary public or a recognised bank or be

supported by such other evidence as a Transfer Agent or the Registrar may reasonably require.

-) 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.]

**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.

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.

SSUER]

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

or 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 20 September 2013 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 9 September 2016 (as amended or supplemented from time to time, the **Trust Deed**) between Western Power Distribution (East Midlands) plc (**WPDE**), Western Power Distribution (West Midlands) plc (**WPDW**), Western Power Distribution (South West) plc (**WPD South West**) and Western Power Distribution (South Wales) plc (**WPD South Wales**) and, together with WPDE, WPDW and WPD South West, the **Issuers** and each an **Issuer**) and HSBC Corporate Trustee Company (UK) Limited (the **Note Trustee**, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). Notes issued by each Issuer are obligations solely of that Issuer (the **Relevant Issuer**) and without recourse whatsoever to any other Issuer. These terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Registered Notes, Bearer Notes, Certificates, Coupons and Talons referred to below. An amended and restated agency agreement dated on 10 September 2013 (as amended or supplemented from time to time, the **Agency Agreement**) has been entered into in relation to the Notes between the Issuers, the Note Trustee, HSBC Bank plc as issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **Issuing and Paying Agent**, the **Paying Agents** (which expression shall include the Issuing and Paying Agent, the **Registrar**, the **Transfer Agents** (which expression shall include the Registrar) and the **Calculation Agent(s)**). Copies of the Trust Deed, the Agency Agreement and the Prospectus are available for inspection during usual business hours at the principal office of the Note Trustee (presently at 8 Canada Square, London E14 5HQ) and at the specified offices of the Paying Agents and the Transfer Agents.

Notes means the euro medium term notes issued by the Issuers constituted by the Trust Deed and for the time being outstanding. References herein to the Notes shall be references to the relevant Series of Notes only.

The Noteholders, the holders of the interest coupons (the **Coupons**) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons

The **Talons**) (the **Couponholders**) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, **Tranche** means Notes which are identical in all respects and **Series** means a series of Notes comprising of one or more Tranches of Notes which are identical save for the issue date, issue price and/or the first payment of interest.

Any reference in these Conditions to Final Terms shall be deemed to include a reference to Pricing Supplement, where relevant.

1. Form, Denomination and Title

The Notes are issued in bearer form (**Bearer Notes**) or in registered form (**Registered Notes**) in each case in the Specified Denomination(s) shown in the Final Terms provided that in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a Prospectus under the Prospectus Directive, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes shall have the same Specified Denomination.

Unless the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Final Terms.

If the Note is an Exempt Note, the Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note or a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Pricing Supplement.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates (**Certificates**) and, save as provided in Condition 2(c) (Exercise of Options or Partial Redemption in Respect of Registered Notes), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuers shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **Register**). Except as ordered by a court of competent jurisdiction or as required by

law, the holder (as defined below) of any Note, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, **Noteholder** means the bearer of any Bearer Note or the person in whose name a Registered Note is registered (as the case may be), **holder** (in relation to a Note, Coupon or Talon) means the bearer of any Bearer Note, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them in the Final Terms, the absence of any such meaning indicating that such term is not applicable to the Notes.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear, Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Note Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Note Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions Noteholder and holder of Notes and related expressions shall be construed accordingly.

No Exchange of Notes and Transfers of Registered Notes

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Relevant Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be

issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuers, with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of a Relevant Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) (*Transfer of Registered Notes*) or (c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(f) (*Redemption at the Option of Noteholders*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d) (*Delivery of New Certificates*), **business day** means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).
- (e) **Transfers Free of Charge:** Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Relevant Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of that
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Note, (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Relevant Issuer at its option pursuant to Condition 6(e) (*Redemption at the Option of the Relevant Issuer*), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date.

3. Status

The Notes and the Coupons relating to them constitute (subject to Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) direct, general, unconditional and unsecured obligations of the Issuers and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuers under the Notes and the Coupons relating to them shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*), at all times rank at least equally with all other unsecured and unsubordinated indebtedness of the Issuers present and future.

4. Negative Pledge and Restriction on Distribution of Dividends

- (a) **Negative Pledge:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Relevant Issuer will ensure that no Relevant Indebtedness (as defined below) of the Relevant Issuer and no guarantee by the Relevant Issuer of any Relevant Indebtedness of any person will be secured by a mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Relevant Issuer unless the Relevant Issuer, before or at the same time as the creation of the Security Interest, takes any and all action necessary to ensure that:
- (i) all amounts payable by the Relevant Issuer under the Notes, the Coupons and the Trust Deed are secured equally and rateably with the Relevant Indebtedness or guarantee, as the case may be, by the same Security Interest, in each case to the satisfaction of the Note Trustee; or
 - (ii) such other Security Interest or guarantee or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Relevant Issuer under the Notes, the Coupons and the Trust Deed either (A) as the Note Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (B) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.
- (b) **Restriction on distribution of dividends:** So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Relevant Issuer shall not at any time declare or make a distribution (as defined in Section 1000 of the Corporation Tax Act 2010) or grant a loan or any other credit facility to any of its shareholders unless (1) immediately following the occurrence of any such event, the Net Debt (as defined below) at such time would not exceed 85 per cent. of the Regulatory Asset Base relating to the

year in which the relevant distribution or grant was first declared or made; and (2) written certification thereof, signed by two directors of the Relevant Issuer, has been provided to the Note Trustee on or prior to such distribution or grant. Such certification may be relied upon by the Note Trustee without further enquiry or evidence and, if relied upon by the Note Trustee, shall be conclusive and binding on all parties whether or not addressed to each such party.

(c) **Definitions:** In this Condition:

borrowed money means (i) money borrowed, (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

Net Debt at any time, means the aggregate amount of all indebtedness for borrowed money of the Relevant Issuer at such time less the aggregate of:

- (i) amounts credited to current accounts or deposits and certificates of deposit (with a term not exceeding three months) at, or issued by, any bank, building society or other financial institution;
- (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
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them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Note Trustee and the Relevant Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be zero coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i) (*Early Redemption*:)).

-) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the

Rate of Interest in the manner provided in this Condition 5 (*Interest and other Calculations*) to the Relevant Date (as defined in Condition 10 (*Taxation*)).

(e) **Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding:**

- (i) If any Margin is specified in the Final Terms (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) (*Interest on Floating Rate Notes*) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to the next paragraph.
- (ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified in the Final Terms, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.
- (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes **unit** means the lowest amount of such currency that is available as legal tender in the countries of such currency.

) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Final Terms, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

- (g) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts:** The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be

required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts in respect of each denomination of the Notes for the relevant Interest Accrual Period, Interest Period or Interest Payment Date calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation and/or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period, Interest Period or Interest Payment Date and, if required, the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Note Trustee, the Relevant Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Interest on Floating Rate Notes*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Note Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 12 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Note Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (h) **Linear Interpolation:** Where "Linear Interpolation" is specified as applicable in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period *provided however* that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

Determination or Calculation by Note Trustee: If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, or take any action that it is required to do pursuant to these Conditions, the Calculation Agent shall forthwith notify the Relevant Issuer, the Note Trustee and the Issuing and Paying Agent and the Note Trustee (whether or not it receives such notice) shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Note Trustee shall apply the foregoing provisions of this Condition, with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

- (j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

Business Day means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency and in each (if any) Business Centre; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **TARGET Business Day**) and a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in each (if any) Business Centre.

Day Count Fraction means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **Calculation Period**):

- (i) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if **Actual/365 (Fixed)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365
- (iii) if **Actual/365 (Sterling)** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Period Date falling in a leap year, 366

- (iv) if **Actual/360** is specified in the Final Terms, the actual number of days in the Calculation Period divided by 360
- (v) if **30/360, 360/360** or **Bond Basis** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M₂ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D₁ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

D₂ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30

- (vi) if **30E/360** or **Eurobond Basis** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30

- (vii) if **30E/360 (ISDA)** is specified in the Final Terms, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1) + (D_2 - D_1)]}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_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 (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).

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.

- (e) **Redemption at the Option of the Relevant Issuer:** If Call Option is specified in the Final Terms, the Relevant Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Note Trustee and the Noteholders redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued up to (and including) the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place as the Note Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

In the case of a partial redemption of a Tranche of Notes represented by a New Global Note (as defined in the Trust Deed) pursuant to this Condition, the Notes to be redeemed (the **Redeemed Notes**) will be selected in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion), not more than 30 days prior to the date fixed for redemption.

Redemption at the Option of Noteholders: If Investor Put is specified in the Final Terms, the Relevant Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Relevant Issuer (or such other notice period as may be specified in the Final Terms) redeem such Note on the Optional Redemption Date(s) (specified in the Final Terms) at its Optional Redemption Amount (specified in the Final Terms) together with interest accrued up to (and including) the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (**Exercise Notice**) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Relevant Issuer.

(g) Redemption at the Option of the Noteholders on a Restructuring Event

(i) If Restructuring Put Option is specified in the Final Terms (and for the avoidance of doubt, the Investor Put is also specified in the Final Terms), and:

(a) if, at any time while any of the Notes remains outstanding, a Restructuring Event (as defined below) occurs and prior to the commencement of or during the Restructuring Period (as defined below):

(A) an independent financial adviser (as described below) shall have certified in writing to the Note Trustee that such Restructuring Event will not be or is not, in its opinion, materially prejudicial to the interests of the Noteholders; or

(B) if there are Rated Securities (as defined below), each Rating Agency (as defined below) that at such time has assigned a current rating to the Rated Securities confirms in writing to the Relevant Issuer at its request (which it shall make as set out below) that it will not be withdrawing or reducing the then current rating assigned to the Rated Securities by it from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall have already rated the Rated Securities below investment grade (as described above), the rating will not be lowered by one full rating category or more, in each case as a result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event,

the following provisions of this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*) shall cease to have any further effect in relation to such Restructuring Event.

- (b) if, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and (subject to Condition 6(g)(i)(a) (*Redemption at the Option of the Noteholders on a Restructuring Event*)):
 - (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 (**Negative Certification**),

then, unless at any time the Relevant Issuer shall have given notice under Condition 6(e) (*Redemption at the Option of the Relevant Issuer*) or the holder shall have given notice under Condition 6(f) (*Redemption at the Option of Noteholders*) (if applicable), the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option (the **Restructuring Put Option**) to require the Relevant Issuer to redeem or, at the option of the Relevant Issuer, purchase (or procure the purchase of) that Note on the Put Date (as defined below), at its Optional Redemption Amount (specified in the Final Terms) together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date..

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Noteholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to, or, as the case may be, there is assigned to the Notes or other unsecured and unsubordinated debt of the Relevant Issuer having an initial maturity of five years or more by any Rating Agency, an investment grade rating (BBB-/Baa3) or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any Negative Certification shall be conclusive and binding on the Note Trustee, the Relevant Issuer and the Noteholders. The Relevant Issuer may, at any time,

with the approval of the Note Trustee appoint an independent financial adviser for the purposes of this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*). If, within five Business Days following the occurrence of a Rating Downgrade or a Negative Rating Event, as the case may be, in respect of a Restructuring Event, the Relevant Issuer shall not have appointed an independent financial adviser for the purposes of Condition 6(g)(i)(b) (B) and (if so required by the Note Trustee) the Note Trustee is indemnified and/or prefunded and/or secured to its satisfaction against the costs of such adviser, the Note Trustee may appoint an independent financial adviser for such purpose following consultation with the Relevant Issuer.

- (ii) Promptly upon the Relevant Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Relevant Issuer shall, and at any time upon the Note Trustee if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding shall, give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 18 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Restructuring Put Option.
- (iii) To exercise the Restructuring Put Option, the holder of a Note must comply with the provisions of Condition 6(f) (*Redemption at the Option of Noteholders*). The applicable notice period for the purposes of Condition 6(f) (*Redemption at the Option of Noteholders*), as applied to a Restructuring Put Option, shall be the period (the **Put Period**) of 45 days after that on which a Put Event Notice is given. Subject to the relevant Noteholder having complied with Condition 6(f) (*Redemption at the Option of Noteholders*), the Relevant Issuer shall redeem or, at the option of that Relevant Issuer, purchase (or procure the purchase of) the relevant Note on the fifteenth day after the date of expiry of the Put Period (the **Put Date**) unless previously redeemed or purchased.
- (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(l)(c) of the Electricity Act 1989 (as amended by section 30 of the Utilities Act 2000), as of the date of such distribution licence.
 - (b) A **Negative Rating Event** shall be deemed to have occurred if (1) a Relevant Issuer does not, either prior to or not later than 14 days after the date of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of that Relevant Issuer having an initial maturity of five years or more from a Rating Agency or (2) if it does so seek and use such endeavours, it is unable, as a result of such

Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being).

- (c) A **Put Event** occurs on the date of the last to occur of (1) a Restructuring Event, (2) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (3) the relevant Negative Certification.
- (d) **Rating Agency** means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors (**Standard & Poor's**) or Moody's Investors Service Limited or any of its subsidiaries and their successors (**Moody's**) or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee.
- (e) A **Rating Downgrade** shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Relevant Issuer or by its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3), or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Bal), or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category or more.
- (f) **Rated Securities** means the Notes, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of a Relevant Issuer having an initial maturity of five years or more which is rated by a Rating Agency.
- (g) **Restructuring Event** means the occurrence of any one or more of the following events:
 - (A) (i) the Secretary of State for Business, Innovation and Skills (or any successor) giving the Relevant Issuer written notice of any revocation of its Distribution Licence; or
 - (ii) the Relevant Issuer agreeing in writing with the Secretary of State for Business, Innovation and Skills (or any successor) to any revocation or surrender of its Distribution Licence; or
 - (iii) any legislation (whether primary or subordinate) being enacted which terminates or revokes the Distribution Licence of the Relevant Issuer;

except, in each such case, in circumstances where a licence or licences on substantially no less favourable terms is or are granted to the Relevant Issuer or a wholly-owned subsidiary of the Relevant Issuer where such subsidiary at the time of such grant either executes in favour of the Note Trustee an unconditional and irrevocable guarantee in respect of all Notes issued by the Relevant Issuer in such form as the Note Trustee may approve or becomes the primary obligor under the Notes issued by the Relevant Issuer in accordance with Condition 13(c) (*Substitution*); or

- (B) any modification (other than a modification which is of a formal, minor or technical nature) being made to the terms and conditions upon which a Relevant Issuer is authorised and empowered under relevant legislation to distribute electricity in the Distribution Services Area unless two directors of such Issuer have certified in good faith to the Note Trustee that the modified terms and conditions are not materially less favourable to the business of that Relevant Issuer;
- (C) any legislation (whether primary or subordinate) is enacted which removes, qualifies or amends (other than an amendment which is of a formal, minor or technical nature) the duties of the Secretary of State for Business, Innovation and Skills (or any successor) and/or the Gas and Electricity Markets Authority (or any successor) under section 3A of the Electricity Act 1989 (as amended by the Utilities Act 2000) (as this may be amended from time to time) unless two directors of such Relevant Issuer have certified in good faith to the Note Trustee that such removal, qualification or amendment does not have a materially adverse effect on the financial condition of that Relevant Issuer.

(h) **Restructuring Period** means:

- (A) if at the time a Restructuring Event occurs there are Rated Securities, the period of 90 days starting from and including the day on which that Restructuring Event occurs; or
- (B) if at the time a Restructuring Event occurs there are no Rated Securities, the period starting from and including the day on which that Restructuring Event occurs and ending on the day 90 days following the later of (aa) the date (if any) on which the Relevant Issuer shall seek to obtain a rating as contemplated by the definition of Negative Rating Event; (bb) the expiry of the 14 days referred to in the definition of Negative Rating Event and

(cc) the date on which a Negative Certification shall have been given to the Note Trustee in respect of that Restructuring Event.

- (i) A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Restructuring Event if the Rating Agency making the relevant reduction in rating or, where applicable, refusal to assign a rating of at least investment grade as provided in this Condition 6(g) (*Redemption at the Option of the Noteholders on a Restructuring Event*), does not announce or publicly confirm or inform the Relevant Issuer in writing at its request (which it shall make as set out in the following paragraph) that the reduction or, where applicable, declining to assign a rating of at least investment grade, was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event.

The Relevant Issuer undertakes to contact the relevant Rating Agency immediately following that reduction, or where applicable the refusal to assign a rating of at least investment grade, to confirm whether that reduction, or refusal to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event. The Relevant Issuer shall notify the Note Trustee immediately upon receipt of any such confirmation from the relevant Rating Agency.

- (h) **Purchases:** The Relevant Issuer may at any time purchase Notes (provided that all unmatured Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price.
- (i) **Cancellation:** All Notes purchased by or on behalf of the Relevant Issuer or its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Relevant Issuer, be cancelled forthwith (together with all unmatured Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Relevant Issuer in respect of any such Notes shall be discharged.

7. Indexation

This Condition 7 (*Indexation*) is applicable only if the relevant Final Terms specifies that the Notes are Index Linked Interest Notes and/or Index Linked Redemption Notes.

- (a) **Application of the Index Ratio**
-

Each payment of interest in respect of the Index Linked Interest Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio (or Limited Index Ratio in the case of Limited Indexed Notes) applicable to the month in which such payment falls to be made and rounded in accordance with Condition 5(e) (*Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*).

Each payment of principal in respect of the Index Linked Redemption Notes shall be the amount provided in, or determined in accordance with, these Conditions, multiplied by the Index Ratio (or Limited Index Ratio in the case of Limited Indexed Notes) applicable to the month in which such payment falls to be made and rounded in accordance with Condition 5(e) (*Margin, Maximum/Minimum Rates of Interest, Redemption Amounts and Rounding*).

(b) **Changes in Circumstances Affecting the Index**

- (i) **Change in base:** If at any time and from time to time the Index is changed by the substitution of a new base therefore, then with effect from the calendar month from and including that in which such substitution takes effect (1) the definition of "Index" and "Index Figure" in Condition 8 (*Definitions*) shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, to such other date or month as may have been substituted therefore); and (2) the new Base Index Figure shall be the product of the existing Base Index Figure and the Index Figure immediately following such substitution, divided by the Index Figure immediately prior to such substitution.
- (ii) **Delay in publication of Index:** If the Index Figure relating to any month (the **relevant month**) which is required to be taken account for the purposes of the determination of the Index Figure applicable for any date is not published on or before the fourteenth business day before the date on which any payment of interest or principal on the Notes is due (the **date for payment**), the Index Figure relating to the relevant month shall be (1) such substitute index figure (if any) as an Indexation Adviser considers to have been published by the Bank of England or, as the case may be, the United Kingdom Debt Management Office (or such other designated debt manager of Her Majesty's Treasury, from time to time) for the purposes of indexation of payments on the Reference Gilt or, failing such publication, on any one or more issues of index-linked Treasury Stock selected by the Indexation Adviser (and approved by the Note Trustee); or (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_{m-3} means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

RPI_{m-2} means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (*Changes in Circumstances Affecting the Index*) and Condition 7(d) (*Cessation of or Fundamental Changes to the Index*) below, and if

"8 months lag" is specified in the relevant Final Terms, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication;

Index Linked Interest Notes means Notes with an Interest Basis specified as being Index Linked Interest in the relevant Final Terms.

Index Linked Redemption Notes means Notes with a Redemption Basis specified as being Index Linked Redemption in the relevant Final Terms.

Index Ratio applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

Indexed Notes means Index Linked Interest Notes and Index Linked Redemption Notes.

Limited Index Ratio means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

Limited Indexation Factor means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

Limited Indexation Month means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

Limited Indexed Notes means Indexed Notes to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

Maximum Indexation Factor means the indexation factor specified as such in the relevant Final Terms;

Minimum Indexation Factor means the indexation factor specified as such in the relevant Final Terms; and

Reference Gilt means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Relevant Issuer and approved by the Note Trustee (an **Indexation Adviser**).

Subsidiary means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

Subsidiary Undertaking shall have the meaning given to it by section 1162 of the Companies Act 2006 (but, in relation to the Relevant Issuer, shall exclude any undertaking (as defined in section 1161 of the Companies Act 2006) whose accounts are not included in the then latest published audited consolidated accounts of the Relevant Issuer, or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

9. Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 9(f)(v) (*Unmatured Coupons and unexchanged Talons*)) or Coupons (in the case of interest, save as specified in Condition 9(f)(ii) (*Unmatured Coupons and unexchanged Talons*)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. **Bank** means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
- (i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
 - (ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.
- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Relevant Issuer shall have appointed Paying Agents with specified offices outside the

United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Relevant Issuer, any adverse tax consequence to the Relevant Issuer.

- (d) **Payments subject to Fiscal Laws:** All payments are subject in all cases (i) to any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 10 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to Condition 10 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuers are listed in the Agency Agreement. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuers and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuers reserve the right at any time with the approval of the Note Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuers shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions so require, (v) Paying Agents having specified offices in at least two major European cities, and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Note Trustee.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

- (f) **Unmatured Coupons and unexchanged Talons:**
- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Indexed Notes), such Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due

for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 11 (*Prescription*)).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note or Indexed Notes, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
 - (iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Relevant Issuer may require.
 - (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
-) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11 (*Prescription*)).
- (h) **Non-Business Days:** Subject as provided in the relevant Final Terms, if any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, **business day** means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in the relevant place of presentation in such jurisdiction as shall be specified as "**Additional Financial Centre(s)**" in the relevant Final Terms and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal

financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

10. Taxation

All payments of principal and interest by or on behalf of the Relevant Issuer in respect of the Notes, and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Relevant Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon; or
- (b) **Lawful avoidance of withholding:** to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or
- (c) **Presentation more than 30 days after the Relevant Date:** presented or surrendered (or in respect of which the Certificate representing it is presented or surrendered) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions, **Relevant Date** in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) **principal** shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*)

or any amendment or supplement to it, (ii) **interest** shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and other Calculations*) or any amendment or supplement to it and (iii) **principal** and/or **interest** shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

11. Prescription

Claims against the Relevant Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

12. Events of Default

If any of the following events (**Events of Default**) occurs and is continuing, the Note Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Relevant Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

- (i) **Non-Payment:** if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days in the case of principal and 21 days in the case of interest or, where relevant, the Relevant Issuer, having become obliged to redeem, purchase or procure the purchase of (as the case may be) any Notes pursuant to Condition 6 (*Redemption, Purchase and Options*) fails to do so within a period of 14 days of having become so obliged; or
- (ii) **Breach of Other Obligations:** the Relevant Issuer does not perform, observe or comply with any one or more of its other obligations, covenants, conditions or provisions under the Notes or the Trust Deed and (except where the Note Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Note Trustee may in its absolute discretion permit) next following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (iii) **Cross-Acceleration:** if (A) any other indebtedness for borrowed money (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) but, for the purposes of this paragraph (iii), excluding Non-recourse Indebtedness) of the Relevant Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of a default or (B) any such

indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Relevant Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (D) any security given by the Relevant Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this paragraph (iii) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (on the basis of the middle spot rate for the relevant currency against pounds sterling as quoted by any leading bank on the day on which this paragraph (iii) applies) and two per cent. of the Capital and Reserves; or

- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any substantial part of the property, assets or revenues of the Relevant Issuer and is not discharged or stayed within 90 days; or
- (v) **Insolvency:** the Relevant Issuer is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of its debts generally or a material part of a particular type of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting its debts generally or any part of a particular type of the debts of the Relevant Issuer; or
- (vi) **Winding-up:** (A) an administrator or liquidator is appointed in relation to the Relevant Issuer (and, in each case, not discharged within 90 days) or (B) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Relevant Issuer, or (C) the Relevant Issuer shall apply or petition for a winding-up or administration order in respect of itself or (D) the Relevant Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case ((A) to (D) inclusive) except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Note Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or

- (vii) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Relevant Issuer; or
- (viii) **Illegality:** it is or will become unlawful for the Relevant Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed,

provided that in the case of paragraph (ii) the Note Trustee shall have certified (without liability on its part) that in its opinion such event is materially prejudicial to the interests of the Noteholders.

- (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.

-) **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.

) **Jurisdiction:** The Courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Coupons or Talons and accordingly any legal action or proceedings arising out of or in connection with any Notes, Coupons or Talons (Proceedings) may be brought in such courts. The Issuers have in the Trust Deed irrevocably submitted to the jurisdiction of such courts.

**SCHEDULE 5
FORM OF COUPON**

On the front:

[ISSUER]

EURO MEDIUM TERM NOTE PROGRAMME

Series No. [•]

[Title of issue]

Coupon for [[set out amount due, if known]/the amount] due on [the Interest Payment Date falling in]*[•],[•].

[Coupon relating to Note in the nominal amount of [•]]**

This Coupon is payable to bearer (subject to the Conditions endorsed on the Note to which this Coupon relates, which shall be binding upon the holder of this Coupon whether or not it is for the time being attached to such Note) at the specified offices of the Issuing and Paying Agent and the Paying Agents set out on the reverse hereof (or any other Issuing and Paying Agent or further or other Paying Agents or specified offices duly appointed or nominated and notified to the Noteholders).

[If the Note to which this Coupon relates shall have become due and payable before the maturity date of this Coupon, this Coupon shall become void and no payment shall be made in respect of it.]***

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

[ISSUER]

By:

[Cp. No.]

[Denomination]

[ISIN]

[Series]

[Certif. No.]

On the back:

SUING AND PAYING AGENT

[•]

PAYING AGENT[S]

[•]

[•]

[*Only necessary where Interest Payment Dates are subject to adjustment in accordance with a Business Day Convention otherwise the particular interest Payment Date should be specified.]

**Only required for Coupons relating to Floating Rate or Index Linked Interest Notes that are issued in more than one denomination.]

***Delete if Coupons are not to become void upon early redemption of Note.]

**SCHEDULE 6
FORM OF TALON**

On the front:

[ISSUER]

EURO MEDIUM TERM NOTE PROGRAMME

Series No. [•]

[Title of issue]

Talon for further Coupons falling due on [the Interest Payment Dates falling in]*[[]].

[Talon relating to Note in the nominal amount of [•]]**

After all the Coupons relating to the Note to which this Talon relates have matured, further Coupons (including if appropriate a Talon for further Coupons) shall be issued at the specified office of the Issuing and Paying Agent set out on the reverse hereof (or any other Issuing and Paying Agent or specified office duly appointed or nominated and notified to the Noteholders) upon production and surrender of this Talon.

If the Note to which this Talon relates shall have become due and payable before the original due date for exchange of this Talon, this Talon shall become void and no exchange shall be made in respect of it.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

[ISSUER]

By:

[Talon No.]

[ISIN]

[Series]

[Certif. No.]

on the back:

ISSUING AND PAYING AGENT

[•]

[* The maturity dates of the relevant Coupons should be set out if known, otherwise reference should be made to the months and years in which the Interest Payment Dates fall due.]

[** Only required where the Series comprises Notes of more than one denomination.]

SCHEDULE 7
PROVISIONS FOR MEETINGS OF NOTEHOLDERS

Interpretation

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;
-

- (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

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.

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

5. 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

3. 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.

oting

22. Each question submitted to a meeting shall be decided by a show of hands unless a poll is (before, or on the declaration of the result of, the show of hands) demanded by the chairman, the Relevant Issuer, the Note Trustee or one or more persons holding one or more Notes or voting certificates representing 2 per cent. of the Notes.
23. Unless a poll is demanded a declaration by the chairman that a resolution has or has not been passed shall be conclusive evidence of the fact without proof of the number or proportion of the votes cast in favour of or against it.
24. If a poll is demanded, it shall be taken in such manner and (subject as provided below) either at once or after such adjournment as the chairman directs. The result of the poll shall be deemed to be the resolution of the meeting at which it was demanded as at the date it was taken. A demand for a poll shall not prevent the meeting continuing for the transaction of business other than the question on which it has been demanded.
25. A poll demanded on the election of a chairman or on a question of adjournment shall be taken at once.
26. On a show of hands every person who is present in person and who produces a Bearer Note, a Certificate of which he is the registered holder or a voting certificate or is a proxy or representative has one vote. On a poll every such person has one vote in respect of each integral currency unit of the Specified Currency of such Series of Notes so produced

or represented by the voting certificate so produced or for which he is a proxy or representative. Without prejudice to the obligations of proxies, a person entitled to more than one vote need not use them all or cast them all in the same way.

27. In case of equality of votes the chairman shall both on a show of hands and on a poll have a casting vote in addition to any other votes which he may have.

Effect and Publication of an Extraordinary Resolution

28. An Extraordinary Resolution shall be binding on all the Noteholders, whether or not present at the meeting, and on all the Couponholders and each of them shall be bound to give effect to it accordingly. The passing of such a resolution shall be conclusive evidence that the circumstances justify its being passed. The Relevant Issuer shall give notice of the passing of an Extraordinary Resolution to Noteholders and, in relation to Bearer Notes, to the Paying Agents, and in relation to Registered Notes, to the Registrar within 14 days but failure to do so shall not invalidate the resolution.

Minutes

29. Minutes shall be made of all resolutions and proceedings at every meeting and, if purporting to be signed by the chairman of that meeting or of the next succeeding meeting, shall be conclusive evidence of the matters in them. Unless and until the contrary is proved, every meeting for which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

Written Resolutions

30. A written resolution signed by the holders of not less than 75 per cent., in nominal amount of the Notes outstanding shall take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

Note Trustee's Power to Prescribe Regulations

31. Subject to all other provisions in this Trust Deed the Note Trustee may without the consent of the Noteholders prescribe such further regulations regarding the holding of meetings and attendance and voting at them as it in its sole discretion determines including (without limitation) such requirements as the Note Trustee thinks reasonable to satisfy itself that the persons who purport to make any requisition in accordance with this Trust Deed are entitled to do so and as to the form of voting certificates or block voting instructions so as to satisfy itself that persons who purport to attend or vote at a meeting are entitled to do so.
32. The foregoing provisions of this Schedule shall have effect subject to the following provisions:
- (a) Meetings of Noteholders of separate Series will normally be held separately. However, the Note Trustee may from time to time determine that meetings of Noteholders of separate Series shall be held together

- (b) A resolution that in the opinion of the Note Trustee affects one Series alone shall be deemed to have been duly passed if passed at a separate meeting of the Noteholders of the Series concerned
- (c) A resolution that in the opinion of the Note Trustee affects the Noteholders of more than one Series but does not give rise to a conflict of interest between the Noteholders of the different Series concerned shall be deemed to have been duly passed if passed at a single meeting of the Noteholders of the relevant Series provided that for the purposes of determining the votes a Noteholder is entitled to cast pursuant to paragraph 26, each Noteholder shall have one vote in respect of each £1,000 nominal amount of Notes held, converted, if such Notes are not denominated in sterling, in accordance with Subclause 11.16 (*Currency Conversion*)
- (d) A resolution that in the opinion of the Note Trustee affects the Noteholders of more than one Series and gives or may give rise to a conflict of interest between the Noteholders of the different Series concerned shall be deemed to have been duly passed only if it shall be duly passed at separate meetings of the Noteholders of the relevant Series
- (e) To all such meetings as aforesaid all the preceding provisions of this Schedule shall *mutatis mutandis* apply as though references therein to Notes and to Noteholders were references to the Notes and Noteholders of the Series concerned.

THIS DEED is delivered on the date stated at the beginning.

Signatories

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION (EAST))
MIDLANDS) PLC

acting by) _____
and) Director

Director/Secretary

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION))
(SOUTH WALES) PLC

acting by) _____
and) Director

Director/Secretary

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION))
(SOUTH WEST) PLC

acting by) _____
and) Director

Director/Secretary

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION))
(WEST MIDLANDS) PLC

acting by) _____
and) Director

Director/Secretary

HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED

igned 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

SUPPLEMENT DATED 15 MARCH 2018 TO THE PROSPECTUS DATED 15 SEPTEMBER 2017

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC*(incorporated and registered with limited liability in England and Wales under registration number 02366923)*

and

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC*(incorporated and registered with limited liability in England and Wales under registration number 02366985)*

and

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC*(incorporated and registered with limited liability in England and Wales under registration number 02366894)*

and

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC*(incorporated and registered with limited liability in England and Wales under registration number 03600574)***£3,000,000,000****Euro Medium Term Note Programme**

This supplement (the **Supplement**) to the prospectus dated 15 September 2017 (the **Prospectus**) which comprises a base prospectus for the purposes of Article 5.4 of the Prospectus Directive constitutes a supplementary prospectus for the purposes of Section 87G of the Financial Services and Markets Act 2000 (the **FSMA**) and is prepared in connection with the £3,000,000,000 Euro Medium Term Note Programme (the **Programme**) established by WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC, WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC, WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC and WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC (the **Issuers**). Terms defined in the Prospectus have the same meaning when used in this Supplement. When used in this Supplement, Prospectus Directive means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the EEA.

This Supplement is supplemental to, and should be read in conjunction with, the Prospectus and any other supplements to the Prospectus issued by the Issuer.

Each of the Issuers accepts responsibility for the information contained in this Supplement. To the best of the knowledge of each of the Issuers (which has taken all reasonable care to ensure that such is the case) the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Purpose of the Supplement

The purpose of this Supplement is amend the following formula for the calculation of "Index Figure applicable" in Condition 8 of the Prospectus which has been the subject of a formatting error:

$$\text{IFA} = \text{RPI}_{m3+} \frac{(\text{Day of Calculation Date } 1)}{(\text{Days in month of Calculation Date})} (\text{RPI}_{m2} \text{ RPI}_{m3})$$

(the Erroneous Formula)

The Prospectus is hereby amended by replacing the Erroneous Formula with the following formula:

$$\text{IFA} = \text{RPI}_{m-3+} \frac{(\text{Day of Calculation Date } 1)}{(\text{Days in month of Calculation Date})} (\text{RPI}_{m-2} - \text{RPI}_{m-3})$$

General Information

As disclosed in this Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Prospectus since the publication of the Prospectus.

Unconformed Copy

Dated 4 April 2011 (as amended and restated on 29 July 2014 and as amended on 13 March 2018)

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC
as the Company

HSBC BANK PLC
AND
MIZUHO BANK, LTD.
as Joint Coordinators

ABBNEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
BARCLAYS BANK PLC
HSBC BANK PLC
LLOYDS BANK PLC
MIZUHO BANK, LTD.
ROYAL BANK OF CANADA
THE ROYAL BANK OF SCOTLAND PLC
as Bookrunners and Mandated Lead Arrangers

and

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
as Facility Agent

£300,000,000 MULTICURRENCY REVOLVING FACILITY AGREEMENT

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THIS AGREEMENT is dated 4 April 2011 and has been amended and restated on 29 July 2014 and as amended on 13 March 2018).

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC** (registered number 03600574) (the "**Company**");
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as joint coordinators (the "**Joint Coordinators**");
- (3) **ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS), BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED , BARCLAYS BANK PLC, HSBC BANK PLC, LLOYDS BANK PLC, MIZUHO BANK, LTD., ROYAL BANK OF CANADA** and **THE ROYAL BANK OF SCOTLAND PLC** as bookrunners and mandated lead arrangers (the "**Arrangers**");
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the "**Original Lenders**");
and
- (5) **BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED** as facility agent (the "**Facility Agent**").

IT IS AGREED as follows:

1. INTERPRETATION

1.1 Definitions

In this Agreement:

"Acceptable Bank" means:

- (a) an Effective Date Lender (as defined in the Amendment Agreement);
- (b) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody's Investor Services Limited or a comparable rating from an internationally recognised credit rating agency; or
- (c) any other bank or financial institution approved by the Facility Agent (acting reasonably).

"Acceptable Jurisdiction" means:

- (a) the United States of America;

- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of A- or higher by Standard & Poor's Rating Services or A3 or higher from Moody's Investor Services Limited or A- or higher from Fitch Ratings Ltd.

"Act" means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

"Administrative Party" means an Arranger or the Facility Agent.

"Affiliate" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term "Affiliate" shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty's Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty's Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

"Agent's Spot Rate of Exchange" means the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on a particular day.

"Amendment Agreement" means the amendment and restatement agreement dated 29 July 2014 between the parties to this Agreement at such time.

"Ancillary Commencement Date" means, in relation to an Ancillary Facility, the date on which that Ancillary Facility is first made available, which date shall be a Business Day within the Availability Period.

"Ancillary Commitment" means, in relation to an Ancillary Lender and an Ancillary Facility, the maximum Base Currency Amount which that Ancillary Lender has agreed (whether or not subject to satisfaction of conditions precedent) to make available from time to time under an Ancillary Facility and which has been authorised as such under Clause 8 (*Ancillary Facilities*), to the extent that amount is not cancelled or reduced under this Agreement or the Ancillary Documents relating to that Ancillary Facility.

"Ancillary Document" means each document relating to or evidencing the terms of an Ancillary Facility.

"Ancillary Facility" means any ancillary facility made available by an Ancillary Lender in accordance with Clause 8 (*Ancillary Facilities*).

"Ancillary Lender" means each Lender (or Affiliate of a Lender) which makes available an Ancillary Facility in accordance with Clause 8 (*Ancillary Facilities*).

"Ancillary Outstandings" means, at any time, in relation to an Ancillary Lender and an Ancillary Facility then in force the aggregate of the equivalents (as calculated by that Ancillary

Lender) in the Base Currency of the following amounts outstanding under that Ancillary Facility:

- (a) the principal amount under each overdraft facility and on-demand short term loan facility (net of any Available Credit Balance);
- (b) the face amount of each guarantee, bond and letter of credit under that Ancillary Facility; and
- (c) the amount fairly representing the aggregate exposure (excluding interest and similar charges) of that Ancillary Lender under each other type of accommodation provided under that Ancillary Facility,

in each case as determined by such Ancillary Lender, acting reasonably in accordance with its normal banking practice and in accordance with the relevant Ancillary Document.

"Applicable Accounting Principles" means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

"Authority" means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

"Available Commitment" means a Lender's Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans and the Base Currency Amount of the aggregate of its (and its Affiliate's) Ancillary Commitments; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date and the Base Currency Amount of its (and its Affiliate's) Ancillary Commitment in relation to any new Ancillary Facility that is due to be made available on or before the proposed Drawdown Date,

other than that Lender's participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date and that Lender's (and its Affiliate's) Ancillary Commitments to the extent that they are due to be reduced or cancelled on or before the proposed Drawdown Date.

"Available Credit Balance" means, in relation to an Ancillary Facility, credit balances on any account of the Company with the Ancillary Lender making available that Ancillary Facility to the extent that those credit balances are freely available to be set off by that Ancillary Lender against liabilities owed to it by the Company under that Ancillary Facility.

"Available Facility" means the aggregate for the time being of each Lender's Available Commitment.

"Availability Period" means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

"Balancing and Settlement Code" means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

"Balancing and Settlement Code Framework Agreement" means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which the Company is a party and by which the Balancing and Settlement Code is made binding upon the Company.

"Base Currency" means Sterling.

"Base Currency Amount" means:

- (a) in relation to a Loan, the amount specified in the Request delivered by the Company for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request adjusted to reflect any repayment, prepayment, consolidation or division of the Loan, or as the case may be, cancellation or reduction of an Ancillary Facility; and
- (b) in relation to an Ancillary Commitment, the amount specified as such in the notice delivered to the Facility Agent by the Company pursuant to Clause 8.2 (*Availability*) (or, if the amount specified is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Ancillary Commencement Date for that Ancillary Facility or, if later, the date the Facility Agent receives the notice of the Ancillary Commitment in accordance with the terms of this Agreement).

"Basel III" means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systematically important banks contained in "Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III".

"Break Costs" means the amount (if any), calculated in accordance with Clause 26.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

"Business Day" means a day (other than a Saturday or a Sunday) on which commercial banks are open in London and:

- (a) if on that day a payment in or a purchase of a currency (other than euro) is to be made, the principal financial centre of the country of that currency; or
- (b) if on that day a payment in or purchase of euro is to be made, which is also a TARGET Day.

"Code" means the US Internal Revenue Code of 1986.

"Commitment" means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading "Commitment" in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and
- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

"Compliance Certificate" means a certificate substantially in the form of Schedule 5 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

"Confidential Information" means all information relating to the Company, the Group, the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Group or any of its advisers; or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 30 (*Confidentiality and disclosure of information*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that

Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

"Confidentiality Undertaking" means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Company and the Facility Agent.

"Contribution Notice" means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

"CRD IV" means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

"CTA" means the Corporation Tax Act 2009.

"Debt Purchase Transaction" means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any Commitment or amount outstanding under this Agreement.

"Default" means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"Defaulting Lender" means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within 5 Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

"Designated Gross Amount" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Gross Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"Designated Net Amount" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Net Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"Disruption Event" means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:
 - (i) from performing its payment obligations under the Finance Documents; or
 - (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

"Dodd-Frank" means the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 stat. 1376 (2010) and all requests, rules, guidelines or directives in connection therewith.

"Drawdown Date" means each date on which a Loan is made.

"Environment" means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);

- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

"Environmental Claim" means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

"Environmental Law" means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

"euro or euros or €" means the single currency of the Participating Member States.

"EURIBOR" means in relation to any Loan in euro:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the Term of that Loan; and
 - (ii) it is not possible to calculate an Interpolated Screen Rate for that Loan,the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the offering of deposits in euro and for a period equal in length to the Term for that Loan.

"Event of Default" means an event specified as such in this Agreement.

"Facility" means the revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

"Facility Office" means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days' notice,

as the office(s) through which it will perform its obligations under this Agreement.

"FATCA" means:

- (a) sections 1471 to 1474 of the Code or any associated regulations or other official guidance;
- (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above; or
- (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"FATCA Application Date" means:

- (a) in relation to a "withholdable payment" described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a "withholdable payment" described in section 1473(1)(A)(ii) of the Code (which relates to "gross proceeds" from the disposition of property of a type that can produce interest from sources within the US), 1 January 2017; or
- (c) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2017,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

"FATCA Deduction" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"FATCA Exempt Party" means a Party that is entitled to receive payments free from any FATCA Deduction.

"Fee Letter" means:

- (a) any letter entered into by reference to the Facility between one or more Administrative Parties and the Company setting out the amount of certain fees referred to in the Agreement; and
- (b) any agreement setting out fees payable to a Finance Party referred to in Clause 25 (*Fees*) of this Agreement or under any other Finance Document.

"Final Maturity Date" means, subject to Clause 6 (Extension Option), the fifth anniversary of the date of the Amendment Agreement.

"Finance Document" means:

- (a) this Agreement;
- (b) any Ancillary Document;

- (c) a Fee Letter;
- (d) a Transfer Certificate; or
- (e) any other document designated as such by the Facility Agent and the Company.

"Finance Party" means a Lender, an Ancillary Lender or an Administrative Party.

"Financial Indebtedness" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

"Financial Support Direction" means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

"Funding Rate" means any rate notified by a Lender to the Facility Agent pursuant to Clause 13 (*Market Disruption*).

"Gross Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft but calculated on the basis that the words "(net of any Available Credit Balance)" in paragraph (a) of the definition of "Ancillary Outstandings" were deleted.

"Group" means the Company and its Subsidiaries.

"Holding Company" means in relation to a person, any other person in respect of which it is a Subsidiary.

"Impaired Agent" means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of "Defaulting Lender"; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:

- (A) administrative or technical error; or

- (B) a Disruption Event,

and payment is made within 5 Business Days of its due date; or

- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

"Increase Confirmation" means a confirmation substantially in the form set out in Schedule 6 (*Form of Increase Confirmation*).

"Increase Lender" has the meaning given to that term in Clause 2.2.1 (*Increase*).

"Increased Cost" means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Finance Party's (or its Affiliate's) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

"Insolvency Event" in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;

- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

"Interpolated Screen Rate" means, in relation to LIBOR or EURIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and

- (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,

each as of the Specified Time on the Quotation Day for the currency of that Loan.

"ITA" means the Income Tax Act 2007.

"Legal Reservations" means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Company is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

"Lender" means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 29 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

"LIBOR" means, in relation to any Loan:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the currency of that Loan; or
 - (ii) no Screen Rate is available for the Term of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan,

the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the currency of that Loan and for a period equal in length to the Term of that Loan.

"Licence" means:

- (a) the electricity distribution licence made and treated as granted to the Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 which permit the Company to distribute electricity in the area it is certified to operate in.

"LMA" means the Loan Market Association.

"Loan" means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

"Majority Lenders" means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated $66\frac{2}{3}$ per cent. or more of the Total Commitments immediately before the reduction.

"Margin" means, provided that:

- (a) at least one of Moody's Investor Services Limited ("**Moody's**") and Standard & Poor's Ratings Services ("**Standard & Poor's**") has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company; and
- (b) no Event of Default is outstanding,

prior to but excluding the Effective Date (as defined in the Amendment Agreement) (and for the avoidance of doubt, for the purpose of calculating interest on an overnight basis, from the date immediately preceding the Effective Date to the Effective Date) the rate set out in the table below:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	1.15%
Baa3	BBB-	0.95%
Baa2	BBB	0.85%
Baa1	BBB+	0.75%
A3 or higher	A- or higher	0.65%

from (and including) the Effective Date (as defined in the Amendment Agreement) the rate set out in the table below, provided that on the Effective Date the Margin shall be 0.50%:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	0.90%
Baa3	BBB-	0.70%
Baa2	BBB	0.55%
Baa1	BBB+	0.45%
A3 or higher	A- or higher	0.35%

If the current Moody's and Standard & Poor's ratings in respect of the Company imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, or if an Event of Default is outstanding, the applicable Margin shall be 0.90% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Company or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Company to the Facility Agent (acting reasonably)) or waived.

"Material Adverse Effect" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Company to perform its payment obligations under the Finance Documents or its obligations under Clauses 20.3 (*Interest Cover*) or 20.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

"Material Subsidiary" means, at any time, a Subsidiary of the Company whose gross assets or gross revenues (on a consolidated basis and excluding intra-Group items) then equal or exceed 10 per cent. of the gross assets or gross revenues of the Group.

For this purpose:

- (a) the gross assets or gross revenues of a Subsidiary of the Company will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest audited financial statements of the Group have been based;

- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited financial statements of the Group have been prepared, the gross assets or gross revenues of that Subsidiary will be determined from its latest financial statements;
- (c) the gross assets or gross revenues of the Group will be determined from the Company's latest audited financial statements, adjusted (where appropriate) to reflect the gross assets or gross revenues of any company or business subsequently acquired or disposed of; and
- (d) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Company, it will immediately cease to be a Material Subsidiary and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; the subsequent financial statements of those Subsidiaries and the Group will be used to determine whether those Subsidiaries are Material Subsidiaries or not.

If there is a dispute as to whether or not a company is a Material Subsidiary, a certificate of the auditors of the Company will be; in the absence of manifest error, conclusive.

"**Maturity Date**" means the last day of the Term of a Loan.

"**Multi-account Overdraft**" means an Ancillary Facility which is an overdraft facility comprising more than one account.

"**Net Outstandings**" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft.

"**New Lender**" has the meaning given to that term in Clause 29 (*Changes to the Parties*).

"**Non-Consenting Lender**" means any Lender who does not and continues not to consent or agree to the Company's or the Facility Agent's (at the request of the Company) request to give a consent in relation to, or agree to a waiver or amendment of, any provisions of the Finance Documents where Lenders whose Commitments aggregate either:

- (a) in the case the consent, waiver or amendment in question requires the approval of all the Lenders, Lenders whose Commitments aggregate more than 85% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 85% of the Total Commitments prior to that reduction); or
- (b) in the case the consent, waiver or amendment in question requires the approval of the Majority Lenders, Lenders whose Commitments aggregate more than 60% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 60% of the Total Commitments prior to that reduction),

have consented or agreed to such waiver or amendment.

"**OFGEM**" means the Office of Gas and Electricity Markets.

"**Optional Currency**" means any currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

"**Original Financial Statements**" means the audited consolidated financial statements of the Company for the year ended 31 March 2014.

"**Participating Member State**" means a member state of the European Union that has the euro as its lawful currency under the legislation of the European Union relating to Economic and Monetary Union.

"**Party**" means a party to this Agreement.

"**Pensions Regulator**" means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

"**PPL**" means PPL Corporation, a company incorporated in Pennsylvania, U.S.A. whose head office is in Two North Ninth Street, Allentown, PA 18101, Pennsylvania, U.S.A., registered number 2570936.

"**Pre-approved Currency**" means U.S.\$ and euro.

"**Pro Rata Share**" means:

- (a) for the purpose of determining a Lender's share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

"**PUHCA**" means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

"**Qualifying Lender**" has the meaning given to such term in Clause 14.1 (*Definitions*).

"**Quasi-Security Interest**" has the meaning given to such term in Clause 21.5 (*Negative Pledge*).

"**Quotation Day**" means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;
- (b) (if the currency is euro) two TARGET Days before the first day of that period; or
- (c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Quotation Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be

given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

"Reference Bank Rate" means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

- (a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or
- (b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market,

in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

"Reference Bank Quotation" means any quotation supplied to the Facility Agent by a Reference Bank.

"Reference Banks" means the principal London offices of such banks as may be appointed by the Facility Agent in consultation with the Company and with the consent of the bank so appointed.

"Related Fund" in relation to a fund (the **"first fund"**), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

"Relevant Interbank Market" means in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

"Repeating Representations" means each of the representations and warranties set out in Clause 18.2 (*Status*) to Clause 18.8 (*Financial Statements*) (inclusive), Clause 18.10 (*Litigation*), Clause 18.12 (*Non-Violation of other Agreements*) and Clause 18.13 (*Governing law and enforcement*).

"Representative" means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

"Request" means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

"Rollover Loan" means one or more Loans:

- (a) made or to be made on the same day that a maturing Loan is due to be repaid;
- (b) the aggregate amount of which is equal to or less than the amount of the maturing Loan;
- (c) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of a currency*)); and

(d) made or to be made to the Company for the purpose of refinancing that maturing Loan.

"**Screen Rate**" means:

- (a) in relation to LIBOR, the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for the relevant currency and period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate); and
- (b) in relation to EURIBOR, the euro interbank offered rate administered by the Banking Federation of the European Union (or any other person which takes over the administration of that rate) for the relevant period displayed on page EURIBOR01 of the Reuters screen (or any replacement Reuters page which displays that rate),

or, in each case, on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Company.

"**Secretary of State**" means the Secretary of State for Business, Innovation and Skills.

"**Security Interest**" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

"**Specified Time**" means a time determined in accordance with Schedule 7 (*Timetables*).

"**Sterling**" and "**£**" mean the lawful currency of the United Kingdom.

"**Subordination Deed**" means a document in the form set out in Schedule 8 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

"**Subsidiary**" means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single platform and which was launched on 19 November 2007.

"**TARGET Day**" means any day on which TARGET2 is open for the settlement of payments in euro.

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

"**Tax Deduction**" means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

"**Tax Payment**" means either an increase in a payment made by the Company to a Finance Party under Clause 14.2 (*Tax gross-up*) or a payment under Clause 14.3 (*Tax indemnity*).

"**Term**" means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

"**Total Commitments**" means the aggregate of the Commitments being £300,000,000 at the date of this Agreement.

"**Transfer Certificate**" means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

"**Transfer Date**" means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

"**U.K.**" means the United Kingdom.

"**Unpaid Sum**" means any sum due and payable but unpaid by the Company under the Finance Documents.

"**US**" means the United States of America.

"**U.S. Dollars**" and "**U.S.\$**" means the lawful currency for the time being of the United States of America.

"**VAT**" means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2 Construction

1.2.1 The following definitions have the meanings given to them in Clause 20 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;

- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
- (b) **assets** includes present and future properties, revenues and rights of every description;
- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
- (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
- (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
- (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
- (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
- (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
- (j) a currency is a reference to the lawful currency for the time being of the relevant country;
- (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;

- (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
 - (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
 - (n) a person includes its successors in title, permitted assigns and permitted transferees;
 - (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
 - (p) a time of day is a reference to London time.
- 1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:
- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
 - (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
 - (c) notwithstanding sub-clause 1.2.3(a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.
- 1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.
- 1.2.5 Unless the contrary intention appears:
- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
 - (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
 - (c) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is or may be outstanding under the Finance Documents.
- 1.2.6 The headings in this Agreement do not affect its interpretation.
-

1.2.7 The Company providing cash cover for an Ancillary Facility means the Company paying an amount in the currency of the Ancillary Facility to an interest-bearing account in the name of the Company and the following conditions being met:

- (a) the account is with the Ancillary Lender for which that cash cover is to be provided;
- (b) until no amount is or may be outstanding under that Ancillary Facility, withdrawals from the account may only be made to pay the relevant Finance Party amounts due and payable to it under this Agreement in respect of that Ancillary Facility; and
- (c) the Company has executed a security document over that account, in form and substance satisfactory to the Ancillary Lender with which that account is held, creating a first ranking security interest over that account.

1.2.8 The Company repaying or prepaying any Ancillary Outstandings means:

- (a) the Company providing cash cover in respect of the Ancillary Outstandings;
- (b) the maximum amount payable under the Ancillary Facility being reduced or cancelled in accordance with its terms; or
- (c) the Ancillary Lender being satisfied (acting reasonably) that it has no further liability under that Ancillary Facility,

and the amount by which Ancillary Outstandings are repaid or prepaid under paragraphs (a) and (b) above is the amount of the relevant cash cover or reduction or cancellation.

1.2.9 An amount borrowed includes any amount utilised under an Ancillary Facility.

2. THE FACILITY

2.1 The Facility

2.1.1 Subject to the terms of this Agreement, the Lenders make available to the Company a multicurrency revolving credit facility in an aggregate amount the Base Currency Amount of which is equal to the Total Commitments.

2.1.2 Subject to the terms of this Agreement and the Ancillary Documents, an Ancillary Lender may make all or part of its Commitment available to the Company as an Ancillary Facility.

2.2 Increase

2.2.1 The Company may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 10.6.4 of Clause 10.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with:

- (i) Clause 10.1 (*Mandatory prepayment – illegality*); or
- (ii) sub-clause 10.6.2 of Clause 10.6 (*Involuntary prepayment and cancellation*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in the Base Currency of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an "**Increase Lender**") selected by the Company (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;
- (d) the Company and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Company and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (e) each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (f) the Commitments of the other Lenders shall continue in full force and effect; and
- (g) any increase in the Total Commitments shall take effect on the date specified by the Company in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.

2.2.2 An increase in the Total Commitments will only be effective on:

- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
- (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Company and the Increase Lender.

2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender

or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.

- 2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Company shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Company shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.5 The Company may pay to the Increase Lender a fee in the amount and at the times agreed between the Company and the Increase Lender in a letter between the Company and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.6 Clause 29.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
- (a) an "**Existing Lender**" were references to all the Lenders immediately prior to the relevant increase;
 - (b) the "**New Lender**" were references to that "**Increase Lender**"; and
 - (c) a "**re-transfer**" and "**re-assignment**" were references to respectively a "**transfer**" and "**assignment**".
- 2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

2.3 Nature of a Finance Party's rights and obligations

Unless otherwise agreed by all the Finance Parties:

- 2.3.1 the obligations of a Finance Party under the Finance Documents are several;
- 2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;
- 2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
- 2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;
- 2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and
- 2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. PURPOSE

1 Purpose

The Company shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group and in compliance with the Licence, but not in the case of any utilisation of any Ancillary Facility towards any prepayment of any Loan.

3.2 No obligation to monitor

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. CONDITIONS PRECEDENT

4.1 Conditions precedent documents

A Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received (or, subject to all Lender consent, waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Company and the Lenders upon being so satisfied.

4.2 Further conditions precedent

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

4.2.1 the Repeating Representations are correct in all material respects; and

4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

4.3 Conditions relating to Optional Currencies

4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:

- (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Drawdown Date for that Loan; and
- (b) it is euros or U.S. Dollars or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.

4.3.2 If the Facility Agent has received a written request from the Company for a currency to be approved under paragraph (b) of sub-clause 4.3.1 above, the Facility Agent will confirm to the Company by the Specified Time:

- (a) whether or not the Lenders have granted their approval; and
- (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.

4 **Maximum number**

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 20 Loans outstanding.

5. **UTILISATION**

5.1 **Giving of Requests**

5.1.1 The Company may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.

5.1.2 Each Request is irrevocable.

5.2 **Completion of Requests**

5.2.1 A Request for a Loan will not be regarded as having been duly completed unless:

- (a) the Drawdown Date is a Business Day falling within the Availability Period;
- (b) the currency and amount of the Loan comply with Clause 5.3 (*Currency and amount*); and
- (c) the proposed Term complies with this Agreement.

5.2.2 Only one Loan may be requested in a Request.

5.3 **Currency and amount**

5.3.1 The currency specified in a Request must be either the Base Currency or an Optional Currency.

5.3.2 The amount of the proposed Loan must be:

- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility (or such other amount as the Facility Agent may agree); or
- (b) if the currency selected is an Optional Currency, the minimum amount (and if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of sub-clause 4.3.2 of Clause 4.3 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility.

5.4 **Advance of Loan**

5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.

5.4.2 If the conditions set out in this Agreement have been met, and subject to Clause 9.2 (*Cashless Rollover*), each Lender shall make its participation in each Loan available by no later than 2.00pm on the Drawdown Date through its Facility Office.

- 5.4.3 Save as set out in sub-clause 5.4.4 below, the amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.
- 5.4.4 If a Loan is made to repay Ancillary Outstandings, each Lender's participation in that Loan will be in an amount (as determined by the Facility Agent) which will result as nearly as possible in the aggregate amount of its participation in the Loans then outstanding bearing the same proportion to the aggregate amount of the Loans then outstanding as its Commitment bears to the Total Commitments.
- 5.4.5 No Lender is obliged to participate in a Loan if as a result:
- (a) the Base Currency Amount of its share in the aggregate amount of the Loans would exceed its Commitment; or
 - (b) the Base Currency Amount of the Loans would exceed the Total Commitments.
- 5.4.6 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount, currency and the Base Currency Amount of each Loan, the amount of its participation in that Loan and, if different, the amount of that participation to be made available in accordance with Clause 17 (*Payments*), in each case by the Specified Time.

6. EXTENSION OPTION

- 6.1 The Company may by notice to the Facility Agent (the **Initial Extension Request**) not more than 60 days and not less than 30 days before the first anniversary of the date of the Amendment Agreement (the **First Anniversary**), request that the Final Maturity Date be extended for a further period of one year.
- 6.2 The Company may by notice to the Facility Agent (the **Second Extension Request**) no more than 60 days and not less than 30 days before the second anniversary of the date of the Amendment Agreement (the **Second Anniversary**), request that the Final Maturity Date:
- (a) with respect to Lenders who have agreed to the Initial Extension Request, be extended for a further period of one year; and/or
 - (b) if no Initial Extension Request has been made, or with respect to Lenders who refused the Initial Extension Request:
 - (i) be extended for a period of one year; or
 - (ii) be extended for a period of two years,as selected by the Company in the notice to the Facility Agent.
- 6.3 The Facility Agent must promptly notify the Lenders of any Initial Extension Request or Second Extension Request (an **Extension Request**).
- 6.4 Each Lender may, in its sole discretion, agree to any Extension Request. Each Lender that agrees to an Extension Request by the date falling 15 days before, the relevant anniversary of the date of this Agreement, will extend its Commitment for a further period of one year or two

years, as set out in the relevant Extension Request, from the then current Final Maturity Date and the Final Maturity Date of that Lender will be extended accordingly.

- 6.5 If any Lender fails to reply to an Extension Request on or before the date falling 15 days before the relevant anniversary of the date of this Agreement, it will be deemed to have refused that Extension Request and its Commitment will not be extended.
- 6.6 Subject to Clause 6.8 below, each Extension Request is irrevocable.
- 6.7 If one or more (but not all) of the Lenders agree to an Extension Request, then the Facility Agent must notify the Company and the Lenders which have agreed to the extension, identifying in that notification which Lenders have not agreed to the Extension Request.
- 6.8 The Company may, on the basis that one or more of the Lenders have not agreed to the Extension Request and no later than the date falling 5 days before the relevant anniversary of the date of this Agreement, withdraw the request by notice to the Facility Agent which will promptly notify the Lenders.

7. OPTIONAL CURRENCIES

7.1 Selection

- 7.1.1 The Company must select the currency of a Loan in its Request. The Company may select the Base Currency or an Optional Currency for a Loan.
- 7.1.2 Unless the Facility Agent otherwise agrees, the Loans may not be denominated at any one time in more than three currencies.

7.2 Revocation of currency

- 7.2.1 Notwithstanding any other term of this Agreement, if before the Specified Time on any Quotation Day the Facility Agent receives notice from a Lender that:
- (a) the Optional Currency requested is not readily available to it in the relevant interbank market in the amount and for the period required; or
 - (b) participating in a Loan in the proposed Optional Currency might contravene any law or regulation applicable to it,

the Facility Agent must give notice to the Company to that effect promptly and in any event before the Specified Time on that day.

7.2.2 In this event:

- (a) that Lender must participate in the Loan in the Base Currency (in an amount equal to that Lender's proportion of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's proportion of the Base Currency Amount of the Rollover Loan that is due to be made); and
- (b) the share of that Lender in the Loan and any other similarly affected Lender(s) will be treated as a separate Loan denominated in the Base Currency during that Term.

7.2.3 Any part of a Loan treated as a separate Loan under this sub-clause will not be taken into account for the purposes of any limit on the number of Loans or currencies outstanding at any one time.

7.2.4 A Loan will still be treated as a Rollover Loan if it is not denominated in the same currency as the maturing Loan by reason only of the operation of this sub-clause.

7.3 Optional Currency equivalents

Except as expressly provided in this Agreement, the equivalent in the Base Currency of a Loan or part of a Loan in an Optional Currency for the purposes of calculating:

7.3.1 whether any limit under this Agreement has been exceeded;

7.3.2 the amount of a Loan;

7.3.3 the share of a Lender in a Loan;

7.3.4 the amount of any repayment of a Loan; or

7.3.5 the undrawn amount of a Lender's Commitment,

is its Base Currency Amount.

8. ANCILLARY FACILITIES

8.1 Type of Facility

An Ancillary Facility may be by way of:

8.1.1 a multicurrency overdraft facility;

8.1.2 a multicurrency guarantee, bonding, documentary or stand-by letter of credit facility;

8.1.3 a short term multicurrency loan facility;

8.1.4 a derivatives facility;

8.1.5 a foreign exchange facility; or

8.1.6 any other multicurrency facility or accommodation required in connection with the business of the Group and which is agreed by the Company with an Ancillary Lender.

8.2 Availability

8.2.1 If the Company and a Lender agree and except as otherwise provided in this Agreement, the Lender may provide all or part of its Commitment as an Ancillary Facility.

8.2.2 An Ancillary Facility shall not be made available unless, not later than three Business Days prior to the Ancillary Commencement Date for an Ancillary Facility, the Facility Agent has received from the Company:

(a) a notice in writing of the establishment of an Ancillary Facility and specifying:

- (i) the proposed Ancillary Commencement Date and expiry date of the Ancillary Facility;
 - (ii) the proposed type of Ancillary Facility to be provided;
 - (iii) the proposed Ancillary Lender;
 - (iv) the proposed Ancillary Commitment, the maximum amount of the Ancillary Facility and, in the case of a Multi-account Overdraft, its Designated Gross Amount and its Designated Net Amount;
 - (v) the proposed currency of the Ancillary Facility (if not denominated in the Base Currency); and
- (b) any other information which the Facility Agent may reasonably request in connection with the Ancillary Facility.

8.2.3 The Facility Agent shall promptly notify the Ancillary Lender and the other Lenders of the establishment of an Ancillary Facility.

8.2.4 Subject to compliance with sub-clause 8.2.2 above:

- (a) the Lender concerned will become an Ancillary Lender; and
- (b) the Ancillary Facility will be available,

with effect from the date agreed by the Company and the Ancillary Lender.

8.3 Terms of Ancillary Facilities

8.3.1 Except as provided below, the terms of any Ancillary Facility will be those agreed by the Ancillary Lender and the Company.

8.3.2 Those terms:

- (a) must be based upon normal commercial terms at that time (except as varied by this Agreement);
- (b) may only allow the Company to use the Ancillary Facility;
- (c) may not allow the Ancillary Outstandings to exceed the Ancillary Commitment;
- (d) may not allow the Ancillary Commitment of a Lender to exceed the Available Commitment of that Lender (before taking into account the effect of the Ancillary Facility on that Available Commitment); and
- (e) must require that the Ancillary Commitment is reduced to nil, and that all Ancillary Outstandings are repaid not later than the Final Maturity Date (or such earlier date as the Commitment of the relevant Ancillary Lender (or its Affiliate) is reduced to zero).

- 8.3.3 If there is any inconsistency between any term of an Ancillary Facility and any term of this Agreement, this Agreement shall prevail except for (i) Clause 24.3 (*Calculations*) which shall not prevail for the purposes of calculating fees, interest or commission relating to an Ancillary Facility; (ii) an Ancillary Facility comprising more than one account where the terms of the Ancillary Documents shall prevail to the extent required to permit the netting of balances on those accounts; and (iii) where the relevant term of this Agreement would be contrary to, or inconsistent with, the law governing the relevant Ancillary Document, in which case that term of this Agreement shall not prevail.
- 8.3.4 Interest, commission and fees on Ancillary Facilities are dealt with in Clause 25.6 (*Interest, commission and fees on Ancillary Facilities*).

8.4 Repayment of Ancillary Facility

- 8.4.1 An Ancillary Facility shall cease to be available on the Final Maturity Date or such earlier date on which its expiry date occurs or on which it is cancelled in accordance with the terms of this Agreement.
- 8.4.2 If an Ancillary Facility expires or is cancelled in accordance with its terms the Ancillary Commitment of the Ancillary Lender shall be reduced to zero.
- 8.4.3 No Ancillary Lender may demand repayment or prepayment of any Ancillary Outstandings prior to the expiry date of the relevant Ancillary Facility unless:
- (a) required to reduce the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount;
 - (b) the Total Commitments have been cancelled in full, or all outstanding Loans have become due and payable in accordance with the terms of this Agreement;
 - (c) it becomes unlawful in any applicable jurisdiction for the Ancillary Lender to perform any of its obligations as contemplated by this Agreement or to fund, issue or maintain its participation in its Ancillary Facility (or it becomes unlawful for any Affiliate of the Ancillary Lender for the Ancillary Lender to do so); or
 - (d) both:
 - (i) the Available Commitments; and
 - (ii) the notice of the demand given by the Ancillary Lender,would not prevent the Company funding the repayment of those Ancillary Outstandings in full by way of Loan.
- 8.4.4 If a Loan is made to repay Ancillary Outstandings in full, the relevant Ancillary Commitment shall be reduced to zero.

8.5 Limitations on Ancillary Outstandings

The Company shall procure that:

8.5.1 the Ancillary Outstandings under any Ancillary Facility shall not exceed the Ancillary Commitment applicable to that Ancillary Facility; and

8.5.2 in relation to a Multi-account Overdraft:

(a) the Ancillary Outstandings shall not exceed the Designated Net Amount applicable to that Multi-account Overdraft; and

(b) the Gross Outstandings shall not exceed the Designated Gross Amount applicable to that Multi-account Overdraft.

8.6 Information

The Company and each Ancillary Lender shall, promptly upon request by the Facility Agent, supply the Facility Agent with any information relating to the operation of an Ancillary Facility (including the Ancillary Outstandings) as the Facility Agent may reasonably request from time to time. The Company consents to all such information being released to the Facility Agent and the other Finance Parties.

8.7 Affiliates of Lenders as Ancillary Lenders

8.7.1 Subject to the terms of this Agreement, an Affiliate of a Lender may become an Ancillary Lender. In such case, the Lender and its Affiliate shall be treated as a single Lender whose Commitment is the amount set out opposite the relevant Lender's name in Schedule 1 (*Original Parties*) and/or the amount of any Commitment transferred to or assumed by that Lender under this Agreement, to the extent (in each case) not cancelled, reduced or transferred by it under this Agreement.

8.7.2 The Company shall specify any relevant Affiliate of a Lender in any notice delivered by the Company to the Facility Agent pursuant to paragraph 8.2.2(a) of Clause 8.2 (*Availability*).

8.7.3 If a Lender assigns all of its rights and benefits or transfers all of its rights and obligations to a New Lender, its Affiliate shall cease to have any obligations under this Agreement or any Ancillary Document.

8.7.4 Where this Agreement or any other Finance Document imposes an obligation on an Ancillary Lender and the relevant Ancillary Lender is an Affiliate of a Lender which is not a party to that document, the relevant Lender shall ensure that the obligation is performed by its Affiliate.

8.8 Commitment amounts

Notwithstanding any other term of this Agreement, each Lender shall ensure that at all times its Commitment is not less than its Ancillary Commitment or the Ancillary Commitment of its Affiliate.

8.9 Amendments and Waivers – Ancillary Facilities

No amendment or waiver of a term of any Ancillary Facility shall require the consent of any Finance Party other than the relevant Ancillary Lender unless such amendment or waiver itself relates to or gives rise to a matter which would require an amendment of or under this Agreement

(including, for the avoidance of doubt, under this Clause). In such a case, the provisions of this Agreement with regard to amendments and waivers will apply.

9. REPAYMENT

9.1 Repayment of Loans

9.1.1 The Company must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.

9.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 9.1.1 above may be re-borrowed.

9.2 Cashless Rollover

9.2.1 Without prejudice to the Company's obligation under Clause 9.1 above, if one or more Loans are to be made available to the Company:

- (a) on the same day that a maturing Loan is due to be repaid by the Company;
- (b) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of currency*)); and
- (c) in whole or in part for the purpose of refinancing the maturing Loan,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (i) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
 - (A) the Company will only be required to pay an amount in cash in the relevant currency equal to that excess; and
 - (B) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (ii) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
 - (A) the Company will not be required to make any payment in cash; and
 - (B) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been

made available and applied by the Company in or towards repayment of that Lender's participation in the maturing Loan.

10. PREPAYMENT AND CANCELLATION

10.1 Mandatory prepayment - illegality

10.1.1 A Lender must notify the Company promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.

10.1.2 After notification under clause 10.1.1 above:

- (a) the Company must repay or prepay the share of that Lender in each Loan made to it on the date specified in clause 10.1.3 below; and
- (b) the Commitments of that Lender will be immediately cancelled.

10.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:

- (a) the Business Day following receipt by the Company of notice from the Lender under sub-clause 10.1.1 above; or
- (b) if later, the latest date allowed by the relevant law.

10.2 Mandatory prepayment - change of control

If, except in the context of a group reorganisation where the Company continues to be controlled directly or indirectly by PPL, the Company becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Company (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 839 of the Taxes Act) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

10.2.1 within five days of such date, the Company shall give notice of such change of control to the Facility Agent;

10.2.2 the Lenders and the Company shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;

10.2.3 if no such agreement is reached within the said period of 45 days then:

- (a) any Lender may on 10 days' notice to the Facility Agent and to the Company require the repayment of its share in each Loan and the repayment of its Ancillary Outstandings and cancel its Commitment; and
- (b) the Majority Lenders may on 10 days' notice to the Company require repayment in full of all outstanding Loans and Ancillary Outstandings and cancel the Total Commitments; and

10.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 10.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 10.2.3.

10.3 Voluntary prepayment

10.3.1 The Company may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.

10.3.2 A prepayment of part of a Loan drawn in US Dollars must be in a minimum amount of \$5,000,000 and an integral multiple of U.S. \$1,000,000.

10.3.3 A prepayment of part of a Loan drawn in Sterling must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.

10.3.4 A prepayment of part of a Loan drawn in euros must be in a minimum amount of €5,000,000 and an integral multiple of €1,000,000.

10.4 Automatic cancellation

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

10.5 Voluntary cancellation

10.5.1 The Company may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.

10.5.2 Partial cancellation of the Total Commitments must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.

10.5.3 Any cancellation in part shall be applied against the Commitment of each Lender pro rata.

10.6 Involuntary prepayment and cancellation

10.6.1 If the Company is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.

10.6.2 After notification under sub-clause 10.6.1 above:

(a) the Company must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 10.6.3 below; and

(b) the Commitments of that Lender will be immediately cancelled.

10.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Company in its notification.

10.6.4

- (a) If any Lender becomes a Defaulting Lender, the Company may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent 5 Business Days' notice of cancellation of the Available Commitment of that Lender.
- (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
- (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

10.7 Re-borrowing of Loans

Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

10.8 Miscellaneous provisions

- 10.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.
- 10.8.2 All prepayments made under Clause 10.2 (*Mandatory prepayment - change of control*) shall be applied *pro rata* to each Lender's participation in such Loan.
- 10.8.3 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- 10.8.4 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.
- 10.8.5 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- 10.8.6 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

11. INTEREST

11.1 Calculation of interest

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- 11.1.1 Margin; and
- 11.1.2 LIBOR or, in relation to any Loan in euro, EURIBOR.

11.2 Payment of interest

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

11.3 Interest on overdue amounts

11.3.1 If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.

11.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting reasonably):

- (a) select successive Terms of any duration of up to three months; and
- (b) determine the appropriate Quotation Day for that Term.

11.3.3 Notwithstanding sub-clause 11.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 11.3.2 above.

11.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

11.4 Notification of rates of interest

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

12. TERMS

12.1 Selection

12.1.1 Each Loan has one Term only.

12.1.2 The Company must select the Term for a Loan in the relevant Request.

12.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or for a period of one to thirty days or any other period agreed between the Company and the Lenders.

12.1.4 The Company shall not use its right under paragraph 12.1.3 above to select for a Loan a Term of less than one month's duration more than six times in any calendar year.

12.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan.

12.2 No overrunning the Final Maturity Date

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

12.3 Other adjustments

12.3.1 The Facility Agent and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.

12.3.2 Subject to Clause 12.3.3 below, if two or more Terms end on the same date, those Loans will, unless the Company specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.

12.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Company requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the Base Currency Amounts specified in that Request, having an aggregate Base Currency Amount equal to the Base Currency Amount of the Loan immediately before its division.

12.4 Notification

The Facility Agent must notify the Company and the Lenders of the duration of each Term promptly after ascertaining its duration.

13. MARKET DISRUPTION

13.1 Failure of a Reference Bank to supply a rate

Subject to the other provisions of this Clause, if LIBOR or, if applicable, EURIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the applicable LIBOR or EURIBOR will be determined on the basis of the quotations of the remaining Reference Banks.

13.2 Market disruption

13.2.1 In this Clause, each of the following events is a **market disruption event**:

- (a) at or about noon on the Quotation Day for the relevant Term, LIBOR or if applicable EURIBOR is to be determined by reference to the Reference Banks and none or only one of the Reference Banks supplies a rate to the Facility Agent to determine LIBOR or, if applicable, EURIBOR for the relevant currency and Term; or
- (b) before close of business in London on the Quotation Day for the relevant Term, the Facility Agent receives notification from a Lender or Lenders whose participations in the relevant Loan exceed 50% of that Loan that the cost to it

(or them) of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR or, if applicable, EURIBOR for the relevant Term.

13.2.2 The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.

13.2.3 After notification under sub-clause 13.2.1(a) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin; and
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select.

13.3 Alternative basis of interest or funding

13.3.1 If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

13.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

14. TAX GROSS-UP AND INDEMNITIES

14.1 Definitions

14.1.1 In this Agreement:

"Qualifying Lender" means:

- (a) a Lender (other than a Lender within paragraph (b) below) which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:
 - (i) a Lender:
 - (A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document; or
 - (B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made,

and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

- (ii) a Lender which is:

- (A) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (B) a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company; or
- (iii) a Treaty Lender; or
- (b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.

"Tax Confirmation" means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.

"Tax Credit" means a credit against, relief or remission for, or repayment of any Tax.

"**Treaty Lender**" means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
 - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Company and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

"**Treaty State**" means a jurisdiction having a double taxation agreement (a "**Treaty**") with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

"**UK Non-Bank Lender**" means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement or Transfer Certificate which it executes on becoming a Party.

14.1.2 Unless a contrary indication appears, in this Clause 14 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

14.2 Tax gross-up

14.2.1 The Company shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

14.2.2 The Company shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Company.

14.2.3 If a Tax Deduction is required by law to be made by the Company, the amount of the payment due from the Company shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

14.2.4 A payment shall not be increased under sub-clause 14.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or
- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a "**Direction**") under section 931 of the ITA which relates to the payment and that Lender has received from the Company a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) the relevant Lender has not given a Tax Confirmation to the Company; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Company on the basis that the Tax Confirmation would have enabled the Company to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or
- (d) the relevant Lender is a Treaty Lender and the Company making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 14.2.7 below.

14.2.5 If the Company is required to make a Tax Deduction, the Company shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.

14.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Company making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

14.2.7

- (a) Subject to paragraph (b) below, a Treaty Lender and the Company which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Company to obtain authorisation to make that payment without a Tax Deduction.
 - (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or
 - (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with paragraph 14.2.10 below or paragraph 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Company making that payment has not complied with its obligations under paragraph 14.2.11 below or paragraph 14.6.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).
- 14.2.8 A UK Non-Bank Lender which becomes a Party on the day on which this Agreement is entered into gives a Tax Confirmation to the Company by entering into this Agreement.
- 14.2.9 A UK Non-Bank Lender shall promptly notify the Company and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 14.2.10 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
- 14.2.11 Where a Lender includes the indication described in paragraph 14.2.10 above in Schedule 1 (*Original Parties*), the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing provided that the Company shall not be liable in respect of any non-compliance with its obligations under this Clause 14.2.11 where such non-compliance is due to circumstances beyond the control of the Company (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Company, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 14.2.12 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with Clause 14.2.10 or Clause 14.6.1 will reasonably promptly notify the Facility Agent and the Company if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
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14.2.13 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.2.10 above or sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*), the Company shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

14.3 Tax indemnity

14.3.1 Except as provided below, the Company must, within three Business Days of demand, indemnify a Finance Party against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.

14.3.2 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:

(a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or

(b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,

if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.

14.3.3 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:

(a) is compensated for by an increased payment under Clause 14.2 (*Tax gross-up*);

(b) would have been compensated for by an increased payment under Clause 14.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 14.2 (*Tax gross-up*) applied; or

(c) relates to a FATCA Deduction required to be made by a Party.

14.3.4 A Finance Party making, or intending to make, a claim under sub-clause 14.3.1 above must promptly notify the Company of the event which will give, or has given, rise to the claim.

14.4 Tax Credit

If the Company makes a Tax Payment and the relevant Finance Party has obtained, used and retained any Tax Credit that is attributable to that Tax Payment, then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, that Finance Party must pay an amount to the Company which that Finance Party determines (in its discretion,

acting reasonably) will leave it (after that payment) in the same after-tax position as it would have been in if the Tax Payment had not been required to be made by the Company. The relevant Finance Party shall take those steps it considers in its opinion reasonable to seek and claim any tax credit.

14.5 Lender Status Confirmation

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Company, which of the following categories it falls in:

14.5.1 not a Qualifying Lender;

14.5.2 a Qualifying Lender (other than a Treaty Lender); or

14.5.3 a Treaty Lender.

If a New Lender fails to indicate its status in accordance with this Clause 14.5 then such New Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Company). For the avoidance of doubt, a Transfer Certificate or assignment agreement shall not be invalidated by any failure of a Lender to comply with this Clause 14.5.

14.6 HMRC DT Treaty Passport scheme confirmation

14.6.1 A New Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) in the Transfer Certificate or Increase Confirmation which it executes by including its scheme reference number and its jurisdiction of tax residence in that Transfer Certificate or Increase Confirmation.

14.6.2 Where a New Lender includes the indication described in sub-clause 14.6.1 above in the relevant Transfer Certificate or Increase Confirmation the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date and shall promptly provide the Lender with a copy of that filing.

14.7 Stamp taxes

The Company shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

14.8 VAT

- 14.8.1 All amounts set out, or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, and accordingly, subject to sub-clause 14.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).
- 14.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the "**Supplier**") to any other Finance Party (the "**Recipient**") under a Finance Document, and any Party other than the Recipient (the "**Subject Party**") is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Subject Party an amount equal to any credit or repayment obtained by the Recipient from the relevant tax authority which the Recipient reasonably determines is in respect of such VAT.
- 14.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.
- 14.8.4 Any reference in this Clause 14.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term "representative member" to have the same meaning as in the Value Added Tax Act 1994).

4.9 **FATCA Information**

- 14.9.1 Subject to sub-clause 14.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:
- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party; and
 - (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA;
 - (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of

that other Party's compliance with any other law, regulation, or exchange of information regime.

- 14.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 14.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- 14.9.3 Sub-clause 14.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 14.9.1 above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (a) any law or regulation;
 - (b) any fiduciary duty; or
 - (c) any duty of confidentiality.
- 14.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a) or (b) of sub-clause 14.9.1 above (including, for the avoidance of doubt, where sub-clause 14.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

14.10 FATCA Deduction

- 14.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction, or otherwise compensate the recipient of the payment for that FATCA Deduction.
- 14.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Company, the Facility Agent and the other Finance Parties.

15. INCREASED COSTS

15.1 Increased Costs

Except as provided below in this Clause, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 15.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;
- 15.1.2 compliance with any law or regulation made after the date of this Agreement **provided that** for the purposes of this Agreement and any other Finance Document, Dodd-Frank shall be deemed to be a law or regulation made after the date of this Agreement; or

15.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV.

15.2 Exceptions

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 15.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 15.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates;
- 15.2.3 attributable to a FATCA Deduction required to be made by a Party;
- 15.2.4 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation;
- 15.2.5 attributable to the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) (**Basel II**) or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or
- 15.2.6 not notified by the relevant Finance Party to the Facility Agent and the Company within three Months of that Finance Party becoming aware of such Increased Cost.

15.3 Claims

A Finance Party intending to make a claim for an Increased Cost must notify the Company promptly of the circumstances giving rise to, and the amount of, the claim.

16. MITIGATION

16.1 Mitigation

- 16.1.1 Each Finance Party must, in consultation with the Company (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:
 - (a) any Tax Payment or Increased Cost being payable to that Finance Party;
 - (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
 - (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
 - (d) the occurrence of any market disruption event,

including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.

- 16.1.2 A Finance Party is not obliged to take any step under this Clause 16 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.
- 16.1.3 Each Finance Party must promptly notify the Company of any circumstances as described in paragraphs (a) to (d) of sub-clause 16.1.1 of this Clause 16.1.
- 16.1.4 The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 16.1.
- 16.1.5 This Clause does not in any way limit the obligations of the Company under the Finance Documents.

16.2 Substitution

Notwithstanding Clause 16.1 (*Mitigation*), if any circumstances arise which result in:

- 16.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 16.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- 16.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank;
- 16.2.4 the occurrence of any market disruption event; or
- 16.2.5 any Lender becoming a Non-Consenting Lender,

then the Company, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a "**Replacement Finance Party**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party's participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that:**

- 16.2.6 the Company shall have no right to replace the Facility Agent;
- 16.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Company to find a Replacement Finance Party;

- 16.2.8 the transfer must take place no later than 14 days after the notice referred to above;
- 16.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and
- 16.2.10 the Finance Party shall only be obliged to transfer its rights and obligations pursuant to this Clause 16.2 once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

16.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

- 16.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or
- 16.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

17. **PAYMENTS**

17.1 **Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents, excluding a payment under the terms of an Ancillary Document, must be made to the Facility Agent to its account at such office or bank:

- 17.1.1 in the principal financial centre of the country of the relevant currency; or
 - 17.1.2 in the case of euro, in the principal financial centre of a Participating Member State or London,
- as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

17.2 **Funds**

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

17.3 **Distribution**

- 17.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank:

- (a) in the principal financial centre of the country of the relevant currency; or
- (b) in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.

17.3.2 The Facility Agent may apply any amount received by it for the Company in or towards payment (as soon as practicable after receipt) of any amount due from the Company under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

17.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

17.4 **Currency of account**

17.4.1 Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Clause.

17.4.2 Interest is payable in the currency in which the relevant amount in respect of which it is payable is denominated.

17.4.3 A repayment or prepayment of any principal amount (or overdue amount) is payable in the currency in which that principal amount (or overdue amount) is denominated on its due date.

17.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.

17.4.5 Each other amount payable under the Finance Documents is payable in Sterling.

17.4.6 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

17.5 **No set-off or counterclaim**

All payments made by the Company under the Finance Documents must be made without set-off or counterclaim.

17.6 **Business Days**

- 17.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.
- 17.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

17.7 Impaired Agent

- 17.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Company or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 17.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Company or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
- 17.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 17.7.3 A Party which has made a payment in accordance with this Clause 17.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.
- 17.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 23.14 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 17.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 17.3 (*Distribution*).
- 17.7.5 For the purposes of this Clause 17.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

17.8 Partial payments

- 17.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Company under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Company under the Finance Documents in the following order:
 - (a) **first**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;

- (b) **secondly**, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;
- (c) **thirdly**, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and
- (d) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.

17.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 17.8.1 of this Clause 17.8.

17.8.3 This Clause will override any appropriation made by the Company.

17.9 **Timing of payments**

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

18. **REPRESENTATIONS**

18.1 **Representations**

The representations set out in this Clause are made by the Company to each Finance Party on the date of this Agreement.

18.2 **Status**

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

18.3 **Powers and authority**

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

18.4 **Legal validity**

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

18.5 **Non-conflict**

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

18.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

18.5.2 its constitutional documents.

18.6 No default

18.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

18.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

18.7 Authorisations

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

18.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

18.7.2 to make the Finance Documents admissible in evidence in England and Wales, have been obtained or effected (as appropriate) and are in full force and effect.

18.8 Financial statements

Its audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

18.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

18.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up, except, in each case, as disclosed to the contrary in those financial statements..

18.9 No material adverse change

Other than as disclosed in writing to the Arranger prior to the date of this Agreement there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

18.10 Litigation

No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

18.11 Winding Up

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

18.12 **Non-Violation of other Agreements:**

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

18.13 **Governing Law and Enforcement**

18.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

18.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

18.14 **Deduction of Tax**

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

18.14.1 a Qualifying Lender:

- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
- (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
- (c) falling within paragraph (b) of the definition of Qualifying Lender or;

18.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

18.15 **No filing or stamp taxes**

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

18.16 **No misleading information**

Save as disclosed in writing to the Facility Agent and the Arrangers prior to the Effective Date (as defined in the Amendment Agreement):

- 18.16.1 any written factual information provided by any member of the Group or on its behalf was true and accurate in all material respects as at the date of the relevant report or document or as at the date (if any) at which it is stated to be given;
- 18.16.2 the financial projections provided have been prepared on the basis of recent historical information and on the basis of reasonable assumptions as at the date provided; and
- 18.16.3 no event or circumstance has occurred or arisen and no information has been given or withheld that results in the information, opinions, intentions, forecasts or projections contained in such written information being untrue or misleading in any material respect.

18.17 **Pari Passu ranking**

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

18.18 **Licence**

The Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of the Licence.

18.19 **Sanctions**

No member of the Group or, to the knowledge of the Company, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "**Person**") currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions. The Company represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

18.20 **Anti-Corruption**

Each member of the Group has conducted its business in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance by that member of the Group with such laws.

18.21 **Times for making representations**

18.21.1 The representations set out in this Clause are made by the Company on the date of this Agreement.

18.21.2 The Repeating Representations are deemed to be repeated by the Company on the date of each Request and the first day of each Term.

18.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

19. INFORMATION COVENANTS

19.1 Financial statements

19.1.1 The Company must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its audited consolidated financial statements for each of its financial years; and
- (b) its interim consolidated financial statements for the first half-year of each of its financial years.

19.1.2 All financial statements must be supplied as soon as they are available and:

- (a) in the case of the Company's audited consolidated financial statements, within 180 days; and
- (b) in the case of the Company's interim financial statements, within 90 days,

of the end of the relevant financial period.

19.2 Form of Financial Statement

If any financial statement delivered or to be delivered to the Facility Agent under Clause 19.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

19.2.1 the Company and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Company, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 20 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

19.2.2 if amendments are agreed by the Company and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

19.2.3 if such amendments are not so agreed within 25 days, the Company shall:

- (a) within 30 days after the end of that 25 day period; and
- (b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 19.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

19.3 Compliance Certificate

- 19.3.1 The Company must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.
- 19.3.2 Each Compliance Certificate must be signed by two directors of the Company.

19.4 Information - miscellaneous

The Company must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

- 19.4.1 copies of all documents despatched by the Company to its creditors generally (or any class of them) in each case at the same time as they are despatched;
- 19.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;
- 19.4.3 promptly, details of the loss of the Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of the Licence;
- 19.4.4 promptly on receiving them, details of any modification of an Authorisation or other material regulatory notices from OFGEM or other government agency;
- 19.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which the Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);
- 19.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);
- 19.4.7 within 5 Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Company;
- 19.4.8 the Company shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Company), actuarial reports in relation to all pension schemes mentioned in sub-clause 21.15.1 of Clause 21.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Company is at that time a participating employer and to those reports which have been provided to the Company;
- 19.4.9 promptly on request, a list of the then current Material Subsidiaries; and

19.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

19.5 Notification of Default

19.5.1 The Company must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.

19.5.2 Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

19.6 Use of websites

19.6.1 Except as provided below, the Company may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:

- (a) the Facility Agent and the Lender agree;
- (b) the Company and the Facility Agent designate an electronic website for this purpose;
- (c) the Company notifies the Facility Agent of the address of and password for the website; and
- (d) the information posted is in a format agreed between the Company and the Facility Agent.

The Facility Agent must supply each relevant Lender with the address of and password for the website.

19.6.2 Notwithstanding the above, the Company must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:

- (a) any Lender not agreeing to receive information via the website; and
- (b) any other Lender within ten Business Days of request by that Lender.

19.6.3 The Company must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

- (a) the website cannot be accessed;
- (b) the website or any information on the website is infected by any electronic virus or similar software;
- (c) the password for the website is changed; or

- (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Company must supply any information required under this Agreement in paper form.

19.7 Know your customer requirements

19.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of the Company after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

20. FINANCIAL COVENANTS

20.1 Definitions

In this Clause:

"Cash" means, at any time, cash denominated in a currency of the United States of America, the United Kingdom, any member state of the European Union or any Participating Member State in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;

- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
- (c) there is no Security Interest over that cash other than Security Interests permitted under sub-clause 21.5.3(k) of Clause 21.5 (*Negative pledge*); and
- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

"Cash Equivalent Investments" means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited;
 - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days' notice; or
- (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group beneficially entitled at that

time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under sub-clauses 21.5.3(l) and (k) of Clause 21.5 (*Negative pledge*)).

"**Consolidated EBITDA**" means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

"**Interest Payable**" means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the Base Currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

"**Measurement Period**" means each period of twelve months ending on 31 March or 30 September.

"**Regulatory Asset Base**" means at any date, the regulatory asset base of the Company for such date as last determined and notified to the Company by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

"**Total Net Debt**" means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

20.2 Interpretation

- 20.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.
- 20.2.2 Any amount in a currency other than the Base Currency is to be taken into account at its Base Currency equivalent calculated on the basis of:
 - (a) the Agent's Spot Rate of Exchange on the day the relevant amount falls to be calculated; or

- (b) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.

20.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

20.3 Interest cover

The Company must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

20.4 Asset Cover

The Company must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of its Regulatory Asset Base.

21. GENERAL COVENANTS

21.1 General

The Company agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Material Subsidiary or each member of the Group, the Company must ensure that each of its Material Subsidiaries or each of its Subsidiaries, as the case may be, performs that covenant.

21.2 Authorisations

The Company must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or, subject to the Reservations, for the validity or enforceability of, any Finance Document.

21.3 Compliance with laws

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

21.4 Pari passu ranking

The Company must ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

21.5 Negative pledge

In this Clause 21.5, "**Quasi-Security Interest**" means an arrangement or transaction described in sub-clause 21.5.2 below.

21.5.1 Except as provided below, neither the Company nor any Material Subsidiary may create or allow to exist any Security Interest or Quasi-Security Interest on any of its assets.

21.5.2 Except as provided below, neither the Company nor any Material Subsidiary may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Company or any Material Subsidiary;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

21.5.3 Sub-clauses 21.5.1 and 21.5.2 do not apply to:

- (a) any lien arising by operation of law and in the ordinary course of trading;
- (b) any netting or set-off arrangement entered into by the Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances (including a Multi-Account Overdraft) of members of the Group;
- (c) any Security Interest or Quasi-Security Interest created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
- (d) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
- (e) any Security Interest or Quasi-Security Interest arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
- (f) any Security Interest or Quasi-Security Interest created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (g) any Security Interest or Quasi-Security Interest outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (h) any Security Interest or Quasi-Security Interest created or outstanding on or over any asset of any company which becomes a Material Subsidiary of the

Company after the date of this Agreement where such Security Interest or Quasi-Security Interest is created prior to the date on which such company becomes a Material Subsidiary of the Company and is not created or increased in contemplation of such company being acquired and/or becoming a Material Subsidiary of the Company and the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of such company becoming a Material Subsidiary of the Company;

- (i) any Quasi-Security Interest arising as a result of a disposal which is a disposal permitted under sub-clause 21.6.2;
- (j) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
- (k) any Security Interest or Quasi-Security Interest over bank accounts of the Company in favour of the account holding bank with whom it maintains a banking relationship in the ordinary course of trade and granted as part of that bank's standard terms and conditions;
- (l) any Security Interest or Quasi-Security Interest created or outstanding with the prior approval of the Majority Lenders; and
- (m) any Security Interest or Quasi-Security Interest created or outstanding on or over assets of the Company or any of its Material Subsidiaries provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security Interest created or outstanding under this exception on or over such assets shall not at any time exceed £25,000,000 or its equivalent.

21.6 Disposals

21.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash) where the higher of the market value and the net consideration receivable (when aggregated with the higher of the market value and the net consideration receivable from any previous disposal by members of the Group) exceeds £5,000,000 (or its equivalent) in total during the term of this Agreement.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity (including, without limitation, disposals of subsidiaries or lines of business, provided that this shall not include a disposal of the core electricity distribution business);
- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
- (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;

- (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 12 months of that disposal (or, if contractually committed to be used within 12 months, are actually used within 18 months of that disposal);
- (e) the disposal of assets by one wholly-owned Subsidiary of the Company to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Company by one of its Subsidiaries;
- (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, provided that the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £50,000,000;
- (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account;
- (h) arising as a result of any Security Interest or Quasi-Security Interest permitted under sub-clause 21.5.3 above;
- (i) the application or disposal of cash not otherwise prohibited under the Finance Documents;
- (j) any disposal by a member of Group compulsorily required by law or regulation having the force of law or any order of any government entity made thereunder and having the force of law provided that and to the extent permitted by such law or regulation:
 - (i) such disposal is made for fair market value; and
 - (ii) such disposal does not have a Material Adverse Effect.

21.7 Environmental matters

- 21.7.1 The Company will and will ensure that its Material Subsidiaries will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.
 - 21.7.2 The Company will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:
 - (a) any Environmental Claim against any member of the Group which is current, pending or threatened; and
-

- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against any member of the Group,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

21.8 Insurance

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

21.9 Merger

The Company shall not enter into any amalgamation, demerger, merger or corporate reconstruction.

21.10 Change of business

The Company shall procure that no substantial change is made to the general nature of the business of the Company or the Group from that carried on at the date of this Agreement.

21.11 Acquisitions

21.11.1 Except as provided below, neither the Company nor any Material Subsidiary may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

21.11.2 Provided that no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 21.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 21.6.2 of Clause 21.6 (*Disposals*) above;
- (b) an acquisition where the consideration (including associated costs and expenses) for the acquisition (when aggregated with the consideration (including associated costs and expenses) for any other acquisition permitted under this paragraph) during the term of this Agreement does not exceed 2.5% of the sum of the issued share capital, share premium and consolidated reserves (including retained earnings) of the Company, as shown by its most recent audited consolidated financial statements; and
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

21.12 Prohibition on the Debt Purchase Transactions of the Group

The Company shall not, and shall procure that each other member of the Group shall not, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of

a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

21.13 Prohibition on Subsidiary Financial Indebtedness

The Company shall procure that no member of the Group (other than the Company) will incur or allow to remain outstanding any Financial Indebtedness unless the relevant member of the Group is a special purpose vehicle incorporated solely for the purpose of incurring such Financial Indebtedness and which does not undertake any other activities.

21.14 Arm's length transactions

The Company shall not (and the Company shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value where to do so would be in contravention of the Licence, provided that if, at any time, the Licence is not in effect, the Company shall not (and shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value.

21.15 Pensions

21.15.1 The Company shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).

21.15.2 Except for in respect of the Electricity Supply Pension Scheme (and in particular the E.On Group, Networks Group and in the case of merger, the WPD Group), the Company shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.

21.15.3 The Company shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 21.15.2 above paid or required (by law or otherwise).

21.15.4 The Company shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.

21.15.5 The Company shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

21.16 Licence

The Company will at all times:

21.16.1 comply with the terms of the Licence in all material respects;

21.16.2 without prejudice to the generality of sub-clause 21.16.1 above, comply with the ring fencing provisions of the Licence in all respects; and

21.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of the Licence.

21.17 Investment Grade Rating

The Company shall procure that the long-term, unsecured and non credit-enhanced debt obligations of the Company shall be rated Baa3/BBB-, or such higher rating as required by the Licence, or above, by at least one of Moody's and Standard and Poor's and shall not be rated below Baa3/BBB-, or such higher rating as required by the Licence, by either of Moody's or Standard and Poor's.

21.18 Sanctions

21.18.1 Neither the Company, nor any other member of the Group, shall be the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "OFAC"), the United Nations Security Council (the "UNSC"), the European Union, Her Majesty's Treasury (the "HMT"), or other relevant sanctions authority (collectively, "Sanctions"), and no member of the Group shall be located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.

21.18.2 The Company undertakes that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity (the "Person"), to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

21.18.3 The Company shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Syria, Cuba, Iran, North Korea, Sudan or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

21.19 Anti-Corruption

21.19.1 The Company shall not (and shall ensure that no other member of the Group will) use the proceeds, or cause or permit the proceeds of any Loan to be used, directly or indirectly, in any way that would be in breach of applicable anti-corruption laws.

21.19.2 The Company shall (and shall ensure that each other member of the Group will):

- (a) conduct its businesses in compliance with applicable anti-corruption laws; and
- (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

2. DEFAULT

22.1 Events of Default

Each of the events set out in this Clause is an Event of Default.

22.2 Non-payment

The Company fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- (a) administrative or technical error; or
- (b) a Disruption Event,

and payment is made within 5 Business Days of its due date.

22.3 Breach of other obligations

22.3.1 The Company does not perform or comply with its obligations under Clause 20 (*Financial Covenants*), Clause 21.5 (*Negative pledge*), Clause 21.6 (*Disposals*) or Clause 21.11 (*Acquisitions*).

22.3.2 The Company does not perform or comply with any of its other obligations under any Finance Document in any material respect or any representation or warranty by the Company in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 20 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Company becoming aware of such non-compliance or misrepresentation, as the case may be.

22.4 Cross-default

22.4.1 Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.

22.4.2 Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).

22.4.3 Any commitment for any Financial Indebtedness of any member of the Group is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).

22.4.4 Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).

22.4.5 No Event of Default will occur under this Clause 22.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 22.4.1 to 22.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

2.5 Insolvency

22.5.1 Any of the following occurs in respect of the Company:

- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
- (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
- (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
- (d) a moratorium is declared in respect of any of its indebtedness.

22.5.2 If a moratorium occurs in respect of the Company, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

22.6 Insolvency proceedings

22.6.1 Except as provided below, any of the following occurs in respect of the Company:

- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
- (b) any person presents a petition for its winding-up, administration or dissolution;
- (c) an order for its winding-up, administration or dissolution is made;
- (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;
- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

22.6.2 Sub-clause 22.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

22.7 Creditors' process

A distress, attachment, execution or other legal process material in relation to the Company's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Company and is not discharged or stayed within 30 days.

22.8 Licence

Either:

22.8.1 notice is given to revoke or terminate the Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

22.8.2 the Licence is revoked,

in either case, other than in circumstances which permit the Company or its Subsidiaries to carry on the distribution business of the Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the Licence, issued under the Act or pursuant to the Utilities Act, 2000.

22.9 Balancing and Settlement Code

22.9.1 The Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where the Company is able to carry on its distribution business; or

22.9.2 the Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

22.10 Unlawfulness and invalidity

22.10.1 It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents in any material respect.

22.10.2 Any obligation or obligations of the Company under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.

22.11 Cessation of business

The Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 21.6 (*Disposals*).

22.12 Repudiation and rescission of agreements

The Company (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.

2.13 Ownership of other Group companies

The Company ceases to own (directly or indirectly) 100% of the shares in any of its Subsidiaries:

- (a) which is engaged in the core electricity distribution business; or
- (b) in respect of which it has any actual or contingent financial obligations other than as a result of a solvent liquidation or reorganisation so long as any payments or assets distributed as a result of such solvent liquidation or reorganisation are distributed to other members of the Group.

22.14 Material Adverse Effect

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

22.15 Acceleration

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Company:

22.15.1 cancel the Total Commitments and/or Ancillary Commitments; and/or

22.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:

- (a) immediately due and payable; and/or
- (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders; and/or

22.15.3 declare that full cash cover in respect of all or part of the amounts outstanding under the Ancillary Facilities is immediately due and payable whereupon it shall become immediately due and payable or payable on demand at which time it shall become payable on demand by the Facility Agent on the instructions of the Majority Lenders.

Any notice given under this sub-clause will take effect in accordance with its terms.

23. THE ADMINISTRATIVE PARTIES

23.1 Appointment and duties of the Facility Agent

23.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.

23.1.2 Each Finance Party irrevocably authorises the Facility Agent to:

- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
- (b) execute each Finance Document expressed to be executed by the Facility Agent.

23.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.

23.1.4 The Facility Agent shall provide to the Company within three Business Days of a request by the Company (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

23.2 Role of the Arrangers

Except as specifically provided in the Finance Documents, the Arranger does not have any obligations of any kind to any other Party in connection with any Finance Document.

23.3 No fiduciary duties

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person. No Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

23.4 Individual position of an Administrative Party

23.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.

23.4.2 Each Administrative Party and each Ancillary Lender may:

- (a) carry on any business with the Company or its related entities (including acting as an agent or a trustee for any other financing); and
- (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Company or its related entities.

23.5 Reliance

The Facility Agent may:

23.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;

23.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;

23.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and

23.5.4 act under the Finance Documents through its personnel and agents.

23.6 **Majority Lenders' instructions**

23.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.

23.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.

23.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.

23.7 **Responsibility**

23.7.1 No Administrative Party and no Ancillary Lender is responsible to any other Finance Party for the adequacy, accuracy or completeness of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.

23.7.2 Without affecting the responsibility of the Company for information supplied by it or on its behalf in connection with any Finance Document, each Lender and each Ancillary Lender confirms that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets); and
- (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.

23.7.3

- (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
- (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it

may not rely on any statement in relation to those requirements made by any other person.

23.8 Exclusion of liability

- 23.8.1 Neither the Facility Agent nor any Ancillary Lender is liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- 23.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.
- 23.8.3 No Party (other than the Facility Agent or the Ancillary Lender) may take any proceedings against any officer, employee or agent of the Facility Agent or any Ancillary Lender in respect of any claim it might have against the Facility Agent or any Ancillary Lender or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent or any Ancillary Lender may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

23.9 Default

- 23.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.
- 23.9.2 If the Facility Agent:
 - (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
 - (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,it must promptly notify the Lenders.

23.10 Information

- 23.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.
- 23.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 23.10.3 Except as provided above, the Facility Agent has no duty:
 - (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial

condition or affairs of the Company or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or

(b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Company.

23.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.

23.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.

23.10.6 The Company irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.

23.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Company and shall disclose the same upon the written request of the Company or the Majority Lenders.

23.11 Indemnities

23.11.1 Without limiting the liability of the Company under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Company for such loss or liability.

23.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.

23.11.3 The Company must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:

(a) investigating any event which the Facility Agent reasonably believes to be a Default; or

(b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

23.12 Compliance

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise

actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

23.13 Resignation of the Facility Agent

- 23.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Company.
- 23.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Company, in which case the Majority Lenders may appoint a successor Facility Agent.
- 23.13.3 If no successor Facility Agent has been appointed under sub-clause 23.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.
- 23.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Company prior to the appointment. Any successor Facility Agent must have an office in the U.K.
- 23.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term "**Facility Agent**" will mean the successor Facility Agent.
- 23.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.
- 23.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 23.13.6 above, it will have no further obligations under any Finance Document.

23.14 Replacement of the Facility Agent

- 23.14.1 After consultation with the Company, the Majority Lenders may, by giving 30 days' notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).
- 23.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- 23.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to

the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 23 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).

23.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

23.15 Relationship with Lenders

23.15.1 Subject to Clause 29.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.

23.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

23.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

23.16 Facility Agent's management time

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

23.17 Notice period

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

23.18 Subordination Deed

The Facility Agent will execute any Subordination Deed within two Business Days of receipt of a request (which shall include an execution version of such Subordination Deed) from the Company.

24. EVIDENCE AND CALCULATIONS

24.1 Accounts

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

24.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

24.3 Calculations

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

25. FEES

25.1 Agency fee

The Company must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Company.

25.2 Arrangement and participation fees

The Company must pay the upfront fees in the manner agreed between the Arrangers and the Company.

25.3 Co-ordination fee

The Company must pay a co-ordination fee in the manner agreed between the Joint Coordinators and the Company.

25.4 Commitment fee

25.4.1 The Company must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.

25.4.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.4.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

25.5 Utilisation fee

25.5.1 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate Base Currency Amount of all Loans exceeds 33.3 per cent. of the Total Commitments.

25.5.2 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans

for each day on which the Base Currency Amount of all Loans exceeds 66.6 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 25.5.1 above is not payable in respect of any day for which the fee described in this sub-clause 25.5.2 is payable.

25.5.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.

25.5.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.6 Interest, commission and fees on Ancillary Facilities

The rate and time of payment of interest, commission, fees and any other remuneration in respect of each Ancillary Facility shall be determined by agreement between the relevant Ancillary Lender and the Company based upon normal market rates and terms.

26. INDEMNITIES AND BREAK COSTS

26.1 Currency indemnity

26.1.1 The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

- (a) that Finance Party receiving an amount in respect of the Company's liability under the Finance Documents; or
- (b) that liability being converted into a claim, proof, judgment or order,

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

26.1.2 Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

26.2 Other indemnities

The Company shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

26.2.1 the occurrence of any Event of Default;

26.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or

26.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Company otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last

day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

26.3 Break Costs

26.3.1 The Company must pay to each Lender its Break Costs within three Business Days of demand.

26.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:

(a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

(b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

26.3.3 Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Clause.

27. EXPENSES

27.1 Initial costs

The Company must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

27.2 Subsequent costs

The Company must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

27.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Increase Confirmation) executed after the date of this Agreement; and

27.2.2 any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by this Agreement.

27.3 Enforcement costs

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

3. AMENDMENTS AND WAIVERS

28.1 Procedure

- 28.1.1 Except as provided in this Clause 28, any term of the Finance Documents (other than the Fee Letters) may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.
- 28.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 28.1.1 above. Any such amendment or waiver is binding on all the Parties.

28.2 Exceptions

28.2.1 An amendment or waiver which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) Clause 2.3 (*Nature of a Finance Party's rights and obligations*);
- (c) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (d) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (e) an increase in, or an extension of, a Commitment or the Total Commitments;
- (f) a term of a Finance Document which expressly requires the consent of each Lender;
- (g) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (h) Clause 10.1 (*Mandatory prepayment – illegality*) or Clause 10.2 (*Mandatory prepayment – change of control*);
or
- (i) this Clause,

may only be made with the consent of all the Lenders.

28.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party or an Ancillary Lender may only be made with the consent of that Administrative Party or Ancillary Lender.

28.3 Disenfranchisement of Defaulting Lenders

28.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request

for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitments.

28.3.2 For the purposes of this Clause 28.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

28.4 Replacement of a Defaulting Lender

28.4.1 The Company may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender.

to a Lender or other bank, financial institution, trust, fund or other entity (a "**Replacement Lender**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

28.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Company shall have no right to replace the Facility Agent;

- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Company to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 28.4.1 above;
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents; and
- (e) the Defaulting Lender shall only be obliged to transfer its rights and obligations pursuant to sub-clause 28.4.1 above once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the transfer to the Replacement Lender.

28.5 Excluded Commitments

If a Lender does not accept or reject a request for an amendment, waiver or consent within 15 Business Days of receipt of such request (or such longer period as the Company and the Facility Agent may agree), or abstains from accepting or rejecting a request for an amendment, waiver or consent, its Commitments shall not be included for the purpose of calculating the Total Commitments or participations under the Facility when ascertaining whether any relevant percentage (including, for the avoidance of doubt, unanimity) of Total Commitments and/or participations has been obtained to approve that request.

28.6 Change of currency

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Company) determines is necessary to reflect the change.

3.7 Waivers and remedies cumulative

The rights of each Finance Party under the Finance Documents:

- 28.7.1 may be exercised as often as necessary;
- 28.7.2 are cumulative and not exclusive of its rights under the general law; and
- 28.7.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

29. CHANGES TO THE PARTIES

29.1 Assignments and transfers by the Company

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

29.2 Assignments and transfers by Lenders

- 29.2.1 A Lender (the **Existing Lender**) may, subject to the following provisions of this Clause 29, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the **New Lender**).
- 29.2.2 Unless the Company and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.
- 29.2.3 An Existing Lender must consult with the Company for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.
- 29.2.4 The Facility Agent is not obliged to accept an assignment or execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.
- 29.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:
- (a) the obligations are novated in accordance with the following provisions of this Clause 29; or
 - (b) the New Lender confirms to the Facility Agent and the Company in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are assigned or transferred to the New Lender.
- 29.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £2,000.
- 29.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

29.3 Procedure for transfer by way of novations

- 29.3.1 In this Clause:

Transfer Date means, for a Transfer Certificate, the later of:

- (a) the proposed Transfer Date specified in that Transfer Certificate; and
 - (b) the date on which the Facility Agent executes that Transfer Certificate.
- 29.3.2 A novation is effected if:

- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
- (b) the Facility Agent executes it.

Subject to sub-clause 29.2.4 of Clause 29.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

29.3.3 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

29.3.4 29.3.4 Subject to Clause 29.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
- (b) the Existing Lender will be released from those obligations and cease to have those rights.

29.4 Limitation of responsibility of Existing Lender

29.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

29.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and
- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

29.4.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or

- (b) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.

29.5 Costs resulting from change of Lender or Facility Office

If:

- 29.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and
- 29.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Company would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 14 (*Tax gross-up and indemnities*) or Clause 15 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 29.5 shall not apply in relation to Clause 14 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Company making the payment has not complied with its obligations under sub-clause 14.1.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

29.6 Changes to the Reference Banks

- 29.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.
- 29.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the Facility Agent (after consultation with the Company) shall designate by notice to the Company and the Lenders.

29.7 Copy of Transfer Certificate or Increase Confirmation to Company

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Company a copy of that Transfer Certificate or Increase Confirmation.

29.8 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 29, each Lender may without consulting with or obtaining consent from the Company, at any time charge, assign or

otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by the Company or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

29.9 Pro rata interest settlement

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a "*pro rata basis*" to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 29.3 (*Procedure for transfer by way of novations*)) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

- 29.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date ("**Accrued Amounts**") and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and
- 29.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable for the account of the Existing Lender; and
 - (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 29.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

In this Clause 29.9, references to "**Term**" shall be construed to include a reference to any other period for accrual of fees.

30. CONFIDENTIALITY AND DISCLOSURE OF INFORMATION

30.1 Confidential Information

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 30.2 (*Disclosure of Confidential Information*) and Clause 30.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

30.2 Disclosure of Confidential Information

Any Finance Party may disclose:

30.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 30.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;

30.2.2 to any person:

- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent and, in each case, to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Company and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (c) appointed by any Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
- (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in sub-clause 30.2.2 (a) or (b) above;
- (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 29.8 (*Security over Lenders' rights*);

- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Company;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to sub-clause 30.2.2 (a), (b) and (c) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
 - (ii) in relation to sub-clause 30.2.2 (d) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
 - (iii) in relation to sub-clause 30.2.2 (e), (f) and (g) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;
- 30.2.3 to any person appointed by that Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 30.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Company and the relevant Finance Party;
- 30.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Company if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

30.3 Disclosure to numbering service providers

30.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Company the following information:

- (a) name of the Company;
- (b) country of domicile of the Company;
- (c) place of incorporation of the Company;
- (d) date of this Agreement;
- (e) the names of the Facility Agent and the Arranger;
- (f) date of each amendment and restatement of this Agreement;
- (g) amount of Total Commitments;
- (h) currencies of the Facility;
- (i) type of Facility;
- (j) ranking of Facility;
- (k) Final Maturity Date for the Facility;
- (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
- (m) such other information agreed between such Finance Party and the Company,

to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

30.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Company by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

30.3.3 The Company represents that none of the information set out in paragraphs (a) to (m) of sub-clause 30.3.1 above is, nor will at any time be, unpublished price-sensitive information.

30.3.4 The Facility Agent shall notify the Company and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Company; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Company by such numbering service provider.

CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS

31.1 Confidentiality and disclosure

- 31.1.1 The Facility Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by sub-clause 31.1.2, 31.1.3 and 31.1.4 below.
 - 31.1.2 The Facility Agent may disclose:
-

- (a) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the Company pursuant to Clause 11.4 (*Notification of rates of interest*); and
- (b) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a Confidentiality Undertaking.

31.1.3 The Facility Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:

- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors and partners if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
- (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
- (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
- (d) any person with the consent of the relevant Lender or Reference Bank, as the case may be.

31.1.4 The Facility Agent's obligations in this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations are without prejudice to its obligations to make notifications under Clause 11.4 (*Notification of rates of interest*) provided that (other than pursuant to paragraph (a) of sub-clause 31.1.2 above) the Facility Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

31.2 Other obligations

- 31.2.1 The Facility Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Facility Agent, any Reference Bank Quotation for any unlawful purpose.
- 31.2.2 The Facility Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:
- (a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 31.1.3 above except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
 - (b) upon becoming aware that any information has been disclosed in breach of this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

32. SET-OFF

- 32.1.1 A Finance Party may set off any matured obligation owed to it by the Company under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Company, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.
- 32.1.2 Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

33. PRO RATA SHARING

33.1 Redistribution

- 33.1.1 If any amount owing by the Company under this Agreement to a Lender (the "**recovering Lender**") is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a "**recovery**"), then:
- (a) the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;
 - (b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and

- (c) the recovering Lender must pay to the Facility Agent an amount equal to the excess (the "**redistribution**").

Sub-clause 33.1.1 above shall not apply to any amount received or recovered by an Ancillary Lender in respect of any cash cover provided for the benefit of that Ancillary Lender.

33.2 **Effect of redistribution**

33.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Company under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

33.2.2 When the Facility Agent makes a distribution under sub-clause 33.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

33.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 33.2.2 above, the Company will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

33.2.4 If:

- (a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Company; and
- (b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 33.2.2 above will operate in reverse to the extent of the reimbursement.

33.3 **Exceptions**

Notwithstanding any other term of this Clause 32.1.1, a recovering Lender need not pay a redistribution to the extent that:

33.3.1 it would not, after the payment, have a valid claim against the Company in the amount of the redistribution; or

33.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

- (a) the recovering Lender notified the Facility Agent of those proceedings; and
- (b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

33.4 **Ancillary Lenders**

33.4.1 This Clause 32 shall not apply to any receipt or recovery by a Lender in its capacity as an Ancillary Lender at any time prior to service of notice under Clause 22.15 (*Acceleration*).

33.4.2 Following service of notice under Clause 22.15 (*Acceleration*), this Clause 32 shall apply to all receipts or recoveries by Ancillary Lenders except to the extent that the receipt or recovery represents a reduction from the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount.

34. SEVERABILITY

34.1 If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

34.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

34.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

35. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

36. NOTICES

36.1 In writing

36.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:

(a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or

(b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.

36.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.

36.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

36.2 Contact details

36.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

36.2.2 The contact details of the Company for this purpose are:

Address: Avonbank, Feeder Road, Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@westernpower.co.uk
Attention: Julie Hunt

The contact details of the Facility Agent for this purpose are:

Address: 2 King Edward Street, London EC1A 1HQ
Fax number: +44 208313 2149
E-mail: emea.7115loansagency@bankofamerica.com
Attention: Loans Agency

36.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

36.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

36.3 Effectiveness

36.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

36.3.2 A communication given under sub-clause 36.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

36.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

36.4 The Company

All formal communication under the Finance Documents to or from the Company must be sent through the Facility Agent.

36.5 Communication when Facility Agent is Impaired Agent

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

37. LANGUAGE

37.1.1 Any notice given in connection with a Finance Document must be in English.

37.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

38. GOVERNING LAW

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

39. ENFORCEMENT

39.1 Jurisdiction

39.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

39.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Company waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

39.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)	£38,571,428.57	
Bank of America Merrill Lynch International Limited	£30,000,000.00	
Barclays Bank PLC	£38,571,428.57	
HSBC Bank plc	£38,571,428.58	
Lloyds Bank plc	£38,571,428.57	
Mizuho Bank, Ltd	£38,571,428.57	
The Royal Bank of Scotland plc	£38,571,428.57	
Royal Bank of Canada	£38,571,428.57	
Total	£300,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT DOCUMENTS

[SATISFIED]

**SCHEDULE 3
REQUESTS**

To: Bank of America Merrill Lynch International Limited as Facility Agent

From: Western Power Distribution (West Midlands) plc

Date: [•]

Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [•]
 - (b) Amount/currency: [•]
 - (c) Term: [•]
3. Our payment instructions are: [•]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. We confirm that as at [*relevant testing date*] Consolidated EBITDA was [•] and Interest Payable was [•]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
6. We confirm that as at [*relevant testing date*] Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
7. This Request is irrevocable.

By:

Western Power Distribution (West Midlands) plc

SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: **Bank of America Merrill Lynch International Limited** as Facility Agent

From: [THE EXISTING LENDER] (the **Existing Lender**) and [THE NEW LENDER] (the **New Lender**)

Date: [•]

Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.

1. The Existing Lender and the New Lender agree to the Existing Lender transferring by novation to the New Lender, and in accordance with Clause 29.3 (*Procedure for transfer by way of novation*), all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment(s) and participations in Loans under the Agreement as specified in the Schedule below.
2. The proposed Transfer Date is [•].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 -) [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

* Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.

** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).

*** Insert jurisdiction of tax residence.

**** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.
-

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

[NEW LENDER]

By:

By :

The Transfer Date is confirmed by the Facility Agent as [•]

[•]

By:

**SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE**

To: **Bank of America Merrill Lynch International Limited** as Facility Agent

From: **Western Power Distribution (West Midlands) plc**

Date: [•]

Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that as at [*relevant testing date*], Consolidated EBITDA was [•] and Interest Payable was [•], therefore the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
3. We confirm that as at [*relevant testing date*], Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:
[•].
5. We confirm that the following companies were Material Subsidiaries at [*relevant testing date*]:
[•].
6. [We confirm that no Default is outstanding as at [*relevant testing date*].] ¹.

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

By:

Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

SCHEDULE 6
FORM OF INCREASE CONFIRMATION

To: **Bank of America Merrill Lynch International Limited** as Facility Agent and **Western Power Distribution (West Midlands) plc** as Company

From: [the *Increase Lender*] (the "**Increase Lender**")

Dated: [•]

Western Power Distribution (West Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
2. We refer to Clause 2.2 (*Increase*) of the Agreement.
3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the "**Relevant Commitment**") as if it was an Original Lender under the Agreement.
4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the "**Increase Date**") is [].
5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule. The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in Clause 2.2 (*Increase*).
8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - 8.1.1 [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - 8.1.2 [a Treaty Lender;]
 - 8.1.3 [not a Qualifying Lender].*
9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - 9.1.1 a company resident in the United Kingdom for United Kingdom tax purposes; or
 - 9.1.2 a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

9.1.3a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number []), and is tax resident in [] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
- ** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [•].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 7
TIMETABLES**

	Loans in euro	Loans in sterling	Loans in other currencies
Facility Agent notifies the Company if a currency is approved as an Optional Currency in accordance with Clause 4.3 (<i>Conditions relating to Optional Currencies</i>)	-	-	U-4
Delivery of a duly completed Request (Clause 5.2 (<i>Completion of Requests</i>))	U-3 9:30 a.m.	U-1 9:30 a.m.	U-3 9:30 a.m.
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 (<i>Advance of Loan</i>) and notifies the Lenders of the Loan in accordance with Clause 5.4 (<i>Advance of Loan</i>)	U-3 Noon	U-1 Noon	U-3 Noon
Facility Agent receives a notification from a Lender under Clause 7.2.1 (<i>Revocation of a currency</i>)	Quotation Day	-	Quotation Day
Facility Agent gives notice in accordance with Clause 7.2 (<i>Revocation of a currency</i>)	Quotation Day 5:30 p.m.	-	Quotation Day 5:30 p.m.
LIBOR or EURIBOR is fixed	Quotation Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Quotation Day as of 11:00 a.m.	Quotation Day as of 11:00 a.m.

"U" = date of utilisation

"U-X" = X Business Days prior to date of utilisation.

**SCHEDULE 8
FORM OF SUBORDINATION DEED**

THIS SUBORDINATION DEED is entered into as a deed on [] and is made **BETWEEN:**

1. WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC (registered number 03600574) (the **Company**);
2. [SUBORDINATED CREDITOR] (the **Subordinated Creditor**); and
3. [●], as Facility Agent acting on behalf of the Lenders (the **Facility Agent**).

1. **INTERPRETATION**

1.1 **Definitions**

In this Deed:

Agreement means the £300,000,000 Multicurrency Revolving Facility Agreement dated 4 April 2011 as amended from time to time between, amongst others, the Company and Bank of America Merrill Lynch International Limited as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document,

provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any

commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in Schedule 8 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [●].

1.2 Construction

- 1.2.1 Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.
- 1.2.2 The principles of construction set out in the Agreement will have effect as if set out in this Deed.
- 1.2.3 Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

- 2.2.1 make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment;
or
- 2.2.2 secure, in any manner, all or any part of the Subordinated Debt; or
- 2.2.3 defease, in any manner, all or any part of the Subordinated Debt; or
- 2.2.4 give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or
- 2.2.5 procure any other person to do any of the acts or take any of the actions referred to paragraphs 2.2.1 to 2.2.4 above.

Undertakings of the Subordinated Creditor

- 2.3.1 The Subordinated Creditor will not without the prior written consent of the Lenders:
- (a) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
 - (b) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
- 2.3.2 The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
- 2.3.3 The Subordinated Creditor will not without the prior written consent of the Lenders:
- (a) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
 - (b) initiate or support or take any steps with a view to, or which may lead to:
 - (i) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (ii) any voluntary arrangement or assignment for the benefit of creditors; or
 - (iii) any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
 - (c) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
 - (d) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).
- 2.3.4 If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.
- 2.3.5 The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt

Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 22.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- 2.4.1 the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- 2.4.2 any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the "**rights**") made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- 2.4.3 if the trust referred to in paragraph 2.4.2 above or paragraph 2.3.4 of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- 2.4.4 the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph 2.4.2 above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent's own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and
- 2.4.5 the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph 2.4.2 above or to do anything which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. SET-OFF

- 3.1.1 The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.

3.1.2 If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph 2.4.2 of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. NEW MONEY

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. PROTECTION OF SUBORDINATION

5.1.1 The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.

5.1.2 Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. MISCELLANEOUS

6.1.1 This Deed overrides anything in any Subordinated Finance Document to the contrary.

6.1.2 Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.

6.1.3 This Deed is a Finance Document.

ASSIGNMENT

7.1.1 The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.

7.1.2 The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. TRUSTS

8.1.1 The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.

8.1.2 The perpetuity period for each trust created by this Deed shall be 80 years.

TERMINATION

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. GOVERNING LAW

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. JURISDICTION

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: [●], as Facility Agent acting on behalf of the Lenders.

To: **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC**

From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the "**Acceding Subordinated Creditor**") in relation to the subordination deed (the "**Subordination Deed**") dated [•] between, among others, Western Power Distribution (West Midlands) plc as Company, [●] as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC**)
acting by)

Director

In the presence of:
Witness's Signature:

Name:

Address:

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED)
by **[ACCEDING SUBORDINATED CREDITOR]**)
acting by)

Director

In the presence of:
Witness's Signature:

Name:

Address:

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED

by [AGENT]

acting by

)
)
)

Director

In the presence of:

Witness's Signature:

Name: _____

Address: _____

Facility Agent contact details:

Address: _____

Annex 2

Form of Certificate

To: [●] as Facility Agent

From: [Western Power Distribution (West Midlands) plc]

Date: [●]

Western Power Distribution (West Midlands) plc - £300,000,000 Revolving Facility Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement") and Subordination Deed dated [●] (as amended and restated from time to time) (the "Deed")

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make [*insert type of payment*] of [*insert amount and currency*] under [*insert description of relevant Subordinated Finance Document*] on [*insert date of payment*].
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

By:

Director

By:

Director

SIGNATORIES

Company

EXECUTED as a DEED)
by WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC)
acting by)

Director

In the presence of:

Witness's Signature:

Name: _____

Address: _____

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Subordinated Creditor

EXECUTED as a DEED)
by [SUBORDINATED CREDITOR])
acting by)

Director

In the presence of:

Witness's Signature:

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED)

by [●])

acting by)

Director

In the presence of:

Witness's Signature:

Name: _____

Address: _____

Facility Agent contact details:

Address:

Bracken House
One Friday Street
London EC4M 9JA

SIGNATORIES

THE COMPANY

Signed by:)

for and on behalf of)

**WESTERN POWER DISTRIBUTION (WEST MIDLANDS)
PLC**)

Address:

Avonbank
Feeder Road
Bristol BS2 0TB

Fax:

+44 (0)1179 332 108

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
)
ABBEY NATIONAL TREASURY SERVICES PLC (TRADING)
AS SANTANDER GLOBAL BANKING & MARKETS))

Address: 2 Triton Square
Regents Place
London NW1 3AN
Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)
Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero
Fax: +44 (0)845 602 7837

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
for and on behalf of)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED)

Address: King Edward Street
London EC1A 1HQ
Fax: +44 (0)20 7995 2886

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
for and on behalf of)
BARCLAYS BANK PLC)

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
CREDIT SUISSE AG, LONDON BRANCH)
)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
HSBC BANK PLC)
)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
LLOYDS BANK PLC)
)

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
IZUHO BANK, LTD.)
)

Address: Bracken House

One Friday Street
London EC4M 9JA
+44 (0)207 012 4301

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
THE ROYAL BANK OF SCOTLAND PLC)
)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

THE LEAD ARRANGER

Signed by:)
)
ROYAL BANK OF CANADA)
)

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar
NalappadamVeetil (for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

THE LENDERS

Signed by:

**ABBEY NATIONAL TREASURY SERVICES PLC (TRADING
AS SANTANDER GLOBAL BANKING & MARKETS)**

)
)
)
)
)
)
)

Address:

2 Triton Square
Regents Place
London NW1 3AN

Attention:

Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax:

+44 (0)20 7756 5816

Fax:

with a copy to Jim Inches/ David Navalón Vaquero
44 (0)845 602 7837

THE LENDERS

Signed by:

**BANK OF AMERICA MERRILL LYNCH INTERNATIONAL
CORPORATION LIMITED**

)
)
)

Address:

King Edward Street
London, EC1A 1HQ

Fax:

+44 (0)20 7995 2886

THE LENDERS

Signed by:

BARCLAYS BANK PLC

)
)
)
)

Address:

5 The North Colonnade
London E14 4BB

Fax:

+44 (0)20 7773 1840

THE LENDERS

Signed by:
REDIT SUISSE AG, LONDON BRANCH

)
)
)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

THE LENDERS

Signed by:
HSBC BANK PLC

)
)
)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

THE LENDERS

Signed by:
LLOYDS BANK PLC

)
)
)

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

THE LENDERS

Signed by:
MIZUHO BANK, LTD.

)
)
)
)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4301

THE LENDERS

Signed by:)
)
ROYAL BANK OF CANADA)

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar
Address: NalappadamVeetil (for administration matters)
Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

THE LENDERS

Signed by:)
)
THE ROYAL BANK OF SCOTLAND PLC)
)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

THE ISSUING BANK

Signed by:)
)
**BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED**)

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

THE FACILITY AGENT

igned by:)
)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
)
MIZUHO BANK, LTD.

Address: Bracken House
One Friday Street
Fax: London EC4M 9JA
+44 (0)207 012 4053

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
)
HSBC BANK PLC

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

West Midlands – C onformed Copy

Uninformed Copy

Dated 4 April 2011 (as amended and restated on 29 July 2014 and as amended on 13 March 2018)

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC
as the Company

HSBC BANK PLC
AND
MIZUHO BANK, LTD.
as Joint Coordinators

ABBNEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
BARCLAYS BANK PLC
HSBC BANK PLC
LLOYDS BANK PLC
MIZUHO BANK, LTD.
ROYAL BANK OF CANADA
THE ROYAL BANK OF SCOTLAND PLC
as Bookrunners and Mandated Lead Arrangers

and

BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED
as Facility Agent

£300,000,000 MULTICURRENCY REVOLVING FACILITY
AGREEMENT

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THIS AGREEMENT is dated 4 April 2011 and has been amended and restated on 29 July 2014 and as amended on 13 March 2018).

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC** (registered number 02366923) (the "**Company**");
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as joint coordinators (the "**Joint Coordinators**");
- (3) **ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS), BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED , BARCLAYS BANK PLC, HSBC BANK PLC, LLOYDS BANK PLC, MIZUHO BANK, LTD., ROYAL BANK OF CANADA** and **THE ROYAL BANK OF SCOTLAND PLC** as bookrunners and mandated lead arrangers (the "**Arrangers**");
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the "**Original Lenders**");
and
- (5) **BANK OF AMERICA MERRILL LYNCH INTERNATIONAL LIMITED** as facility agent (the "**Facility Agent**").

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

"**Acceptable Bank**" means:

- (a) an Effective Date Lender (as defined in the Amendment Agreement);
- (b) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody's Investor Services Limited or a comparable rating from an internationally recognised credit rating agency; or
- (c) any other bank or financial institution approved by the Facility Agent (acting reasonably).

"**Acceptable Jurisdiction**" means:

- (a) the United States of America;
- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of A- or higher by Standard & Poor's

Rating Services or A3 or higher from Moody's Investor Services Limited or A- or higher from Fitch Ratings Ltd.

"**Act**" means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

"**Administrative Party**" means an Arranger or the Facility Agent.

"**Affiliate**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term "**Affiliate**" shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty's Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty's Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

"**Agent's Spot Rate of Exchange**" means the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on a particular day.

"**Amendment Agreement**" means the amendment and restatement agreement dated 29 July 2014 between the parties to this Agreement at such time.

"**Ancillary Commencement Date**" means, in relation to an Ancillary Facility, the date on which that Ancillary Facility is first made available, which date shall be a Business Day within the Availability Period.

"**Ancillary Commitment**" means, in relation to an Ancillary Lender and an Ancillary Facility, the maximum Base Currency Amount which that Ancillary Lender has agreed (whether or not subject to satisfaction of conditions precedent) to make available from time to time under an Ancillary Facility and which has been authorised as such under Clause 8 (*Ancillary Facilities*), to the extent that amount is not cancelled or reduced under this Agreement or the Ancillary Documents relating to that Ancillary Facility.

"**Ancillary Document**" means each document relating to or evidencing the terms of an Ancillary Facility.

"**Ancillary Facility**" means any ancillary facility made available by an Ancillary Lender in accordance with Clause 8 (*Ancillary Facilities*).

"**Ancillary Lender**" means each Lender (or Affiliate of a Lender) which makes available an Ancillary Facility in accordance with Clause 8 (*Ancillary Facilities*).

"**Ancillary Outstandings**" means, at any time, in relation to an Ancillary Lender and an Ancillary Facility then in force the aggregate of the equivalents (as calculated by that Ancillary Lender) in the Base Currency of the following amounts outstanding under that Ancillary Facility:

- (a) the principal amount under each overdraft facility and on-demand short term loan facility (net of any Available Credit Balance);
- (b) the face amount of each guarantee, bond and letter of credit under that Ancillary Facility; and

- (c) the amount fairly representing the aggregate exposure (excluding interest and similar charges) of that Ancillary Lender under each other type of accommodation provided under that Ancillary Facility,

in each case as determined by such Ancillary Lender, acting reasonably in accordance with its normal banking practice and in accordance with the relevant Ancillary Document.

"Applicable Accounting Principles" means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

"Authority" means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

"Available Commitment" means a Lender's Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans and the Base Currency Amount of the aggregate of its (and its Affiliate's) Ancillary Commitments; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date and the Base Currency Amount of its (and its Affiliate's) Ancillary Commitment in relation to any new Ancillary Facility that is due to be made available on or before the proposed Drawdown Date,

other than that Lender's participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date and that Lender's (and its Affiliate's) Ancillary Commitments to the extent that they are due to be reduced or cancelled on or before the proposed Drawdown Date.

"Available Credit Balance" means, in relation to an Ancillary Facility, credit balances on any account of the Company with the Ancillary Lender making available that Ancillary Facility to the extent that those credit balances are freely available to be set off by that Ancillary Lender against liabilities owed to it by the Company under that Ancillary Facility.

"Available Facility" means the aggregate for the time being of each Lender's Available Commitment.

"Availability Period" means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

"Balancing and Settlement Code" means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

"Balancing and Settlement Code Framework Agreement" means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which the Company is a party and by which the Balancing and Settlement Code is made binding upon the Company.

"Base Currency" means Sterling.

"Base Currency Amount" means:

- (a) in relation to a Loan, the amount specified in the Request delivered by the Company for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request adjusted to reflect any repayment, prepayment, consolidation or division of the Loan, or as the case may be, cancellation or reduction of an Ancillary Facility; and
- (b) in relation to an Ancillary Commitment, the amount specified as such in the notice delivered to the Facility Agent by the Company pursuant to Clause 8.2 (*Availability*) (or, if the amount specified is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Ancillary Commencement Date for that Ancillary Facility or, if later, the date the Facility Agent receives the notice of the Ancillary Commitment in accordance with the terms of this Agreement).

"Basel III" means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systematically important banks contained in "Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on Banking Supervision in November 2011, as amended, supplemented or restated; and
- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III".

"Break Costs" means the amount (if any), calculated in accordance with Clause 26.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

"Business Day" means a day (other than a Saturday or a Sunday) on which commercial banks are open in London and:

- (a) if on that day a payment in or a purchase of a currency (other than euro) is to be made, the principal financial centre of the country of that currency; or
- (b) if on that day a payment in or purchase of euro is to be made, which is also a TARGET Day.

"Code" means the US Internal Revenue Code of 1986.

"Commitment" means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading "Commitment" in Schedule 1 (*Original Parties*) and the amount of

any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and

- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

"Compliance Certificate" means a certificate substantially in the form of Schedule 5 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

"Confidential Information" means all information relating to the Company, the Group, the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Group or any of its advisers; or
- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 30 (*Confidentiality and disclosure of information*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

"Confidentiality Undertaking" means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Company and the Facility Agent.

"Contribution Notice" means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

"CRD IV" means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit

institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

"CTA" means the Corporation Tax Act 2009.

"Debt Purchase Transaction" means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any Commitment or amount outstanding under this Agreement.

"Default" means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"Defaulting Lender" means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within 5 Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

"Designated Gross Amount" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Gross Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"Designated Net Amount" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Net Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"Disruption Event" means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:
 - (i) from performing its payment obligations under the Finance Documents; or
 - (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

"Dodd-Frank" means the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 stat. 1376 (2010) and all requests, rules, guidelines or directives in connection therewith.

"Drawdown Date" means each date on which a Loan is made.

"Environment" means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

"Environmental Claim" means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

"Environmental Law" means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

"euro or euros or €" means the single currency of the Participating Member States.

"EURIBOR" means in relation to any Loan in euro:

- (a) the applicable Screen Rate;

- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the Term of that Loan; and
 - (ii) it is not possible to calculate an Interpolated Screen Rate for that Loan,
the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the offering of deposits in euro and for a period equal in length to the Term for that Loan.

"Event of Default" means an event specified as such in this Agreement.

"Facility" means the revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

"Facility Office" means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days' notice,

as the office(s) through which it will perform its obligations under this Agreement.

"FATCA" means:

- (a) sections 1471 to 1474 of the Code or any associated regulations or other official guidance;
- (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above; or
- (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"FATCA Application Date" means:

- (a) in relation to a "withholdable payment" described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a "withholdable payment" described in section 1473(1)(A)(ii) of the Code (which relates to "gross proceeds" from the disposition of property of a type that can produce interest from sources within the US), 1 January 2017; or
- (c) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2017,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

"**FATCA Deduction**" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"**FATCA Exempt Party**" means a Party that is entitled to receive payments free from any FATCA Deduction.

"**Fee Letter**" means:

- (a) any letter entered into by reference to the Facility between one or more Administrative Parties and the Company setting out the amount of certain fees referred to in the Agreement; and
- (b) any agreement setting out fees payable to a Finance Party referred to in Clause 25 (*Fees*) of this Agreement or under any other Finance Document.

"**Final Maturity Date**" means, subject to Clause 6 (Extension Option), the fifth anniversary of the date of the Amendment Agreement.

"**Finance Document**" means:

- (a) this Agreement;
- (b) any Ancillary Document;
- (c) a Fee Letter;
- (d) a Transfer Certificate; or
- (e) any other document designated as such by the Facility Agent and the Company.

"**Finance Party**" means a Lender, an Ancillary Lender or an Administrative Party.

"**Financial Indebtedness**" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;

- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

"Financial Support Direction" means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

"Funding Rate" means any rate notified by a Lender to the Facility Agent pursuant to Clause 13 (*Market Disruption*).

"Gross Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft but calculated on the basis that the words "(net of any Available Credit Balance)" in paragraph (a) of the definition of "Ancillary Outstandings" were deleted.

"Group" means the Company and its Subsidiaries.

"Holding Company" means in relation to a person, any other person in respect of which it is a Subsidiary.

"Impaired Agent" means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of "Defaulting Lender"; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:

- (A) administrative or technical error; or

- (B) a Disruption Event,

and payment is made within 5 Business Days of its due date; or

- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

"Increase Confirmation" means a confirmation substantially in the form set out in Schedule 6 (*Form of Increase Confirmation*).

"Increase Lender" has the meaning given to that term in Clause 2.2.1 (*Increase*).

"Increased Cost" means:

- (a) an additional or increased cost;

- (b) a reduction in the rate of return under a Finance Document or on a Finance Party's (or its Affiliate's) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

"Insolvency Event" in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;

- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

"Interpolated Screen Rate" means, in relation to LIBOR or EURIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and
- (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,

each as of the Specified Time on the Quotation Day for the currency of that Loan.

"ITA" means the Income Tax Act 2007.

"Legal Reservations" means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Company is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

"Lender" means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 29 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

"LIBOR" means, in relation to any Loan:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:

- (i) no Screen Rate is available for the currency of that Loan; or
- (ii) no Screen Rate is available for the Term of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan,

the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the currency of that Loan and for a period equal in length to the Term of that Loan.

"Licence" means:

- (a) the electricity distribution licence made and treated as granted to the Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 which permit the Company to distribute electricity in the area it is certified to operate in.

"LMA" means the Loan Market Association.

"Loan" means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

"Majority Lenders" means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated $66\frac{2}{3}$ per cent. or more of the Total Commitments immediately before the reduction.

"Margin" means, **provided that:**

- (a) at least one of Moody's Investor Services Limited ("**Moody's**") and Standard & Poor's Ratings Services ("**Standard & Poor's**") has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company; and
- (b) no Event of Default is outstanding,

prior to but excluding the Effective Date (as defined in the Amendment Agreement) (and for the avoidance of doubt, for the purpose of calculating interest on an overnight basis, from the date immediately preceding the Effective Date to the Effective Date) the rate set out in the table below:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	1.15%
Baa3	BBB-	0.95%
Baa2	BBB	0.85%
Baa1	BBB+	0.75%
A3 or higher	A- or higher	0.65%

from (and including) the Effective Date (as defined in the Amendment Agreement) the rate set out in the table below, provided that on the Effective Date the Margin shall be 0.50%:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	0.90%
Baa3	BBB-	0.70%
Baa2	BBB	0.55%
Baa1	BBB+	0.45%
A3 or higher	A- or higher	0.35%

If the current Moody's and Standard & Poor's ratings in respect of the Company imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, or if an Event of Default is outstanding, the applicable Margin shall be 0.90% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Company or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Company to the Facility Agent (acting reasonably)) or waived.

"**Material Adverse Effect**" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Company to perform its payment obligations under the Finance Documents or its obligations under Clauses 20.3 (*Interest Cover*) or 20.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

"**Material Subsidiary**" means, at any time, a Subsidiary of the Company whose gross assets or gross revenues (on a consolidated basis and excluding intra-Group items) then equal or exceed 10 per cent. of the gross assets or gross revenues of the Group.

For this purpose:

- (a) the gross assets or gross revenues of a Subsidiary of the Company will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest audited financial statements of the Group have been based;
- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited financial statements of the Group have been prepared, the gross assets or gross revenues of that Subsidiary will be determined from its latest financial statements;
- (c) the gross assets or gross revenues of the Group will be determined from the Company's latest audited financial statements, adjusted (where appropriate) to reflect the gross assets or gross revenues of any company or business subsequently acquired or disposed of; and
- (d) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Company, it will immediately cease to be a Material Subsidiary and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; the subsequent financial statements of those Subsidiaries and the Group will be used to determine whether those Subsidiaries are Material Subsidiaries or not.

If there is a dispute as to whether or not a company is a Material Subsidiary, a certificate of the auditors of the Company will be, in the absence of manifest error, conclusive.

"Maturity Date" means the last day of the Term of a Loan.

"Multi-account Overdraft" means an Ancillary Facility which is an overdraft facility comprising more than one account.

"Net Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft.

"New Lender" has the meaning given to that term in Clause 29 (*Changes to the Parties*).

"Non-Consenting Lender" means any Lender who does not and continues not to consent or agree to the Company's or the Facility Agent's (at the request of the Company) request to give a consent in relation to, or agree to a waiver or amendment of, any provisions of the Finance Documents where Lenders whose Commitments aggregate either:

- (a) in the case the consent, waiver or amendment in question requires the approval of all the Lenders, Lenders whose Commitments aggregate more than 85% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 85% of the Total Commitments prior to that reduction); or
- (b) in the case the consent, waiver or amendment in question requires the approval of the Majority Lenders, Lenders whose Commitments aggregate more than 60% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 60% of the Total Commitments prior to that reduction),

have consented or agreed to such waiver or amendment.

"OFGEM" means the Office of Gas and Electricity Markets.

"**Optional Currency**" means any currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

"**Original Financial Statements**" means the audited consolidated financial statements of the Company for the year ended 31 March 2014.

"**Participating Member State**" means a member state of the European Union that has the euro as its lawful currency under the legislation of the European Union relating to Economic and Monetary Union.

"**Party**" means a party to this Agreement.

"**Pensions Regulator**" means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

"**PPL**" means PPL Corporation, a company incorporated in Pennsylvania, U.S.A. whose head office is in Two North Ninth Street, Allentown, PA 18101, Pennsylvania, U.S.A., registered number 2570936.

"**Pre-approved Currency**" means U.S.\$ and euro.

"**Pro Rata Share**" means:

- (a) for the purpose of determining a Lender's share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

"**PUHCA**" means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

"**Qualifying Lender**" has the meaning given to such term in Clause 14.1 (*Definitions*).

"**Quasi-Security Interest**" has the meaning given to such term in Clause 21.5 (*Negative Pledge*).

"**Quotation Day**" means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;
- (b) (if the currency is euro) two TARGET Days before the first day of that period; or
- (c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Quotation Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given

by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

"Reference Bank Rate" means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

- (a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or
- (b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market,

in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

"Reference Bank Quotation" means any quotation supplied to the Facility Agent by a Reference Bank.

"Reference Banks" means the principal London offices of such banks as may be appointed by the Facility Agent in consultation with the Company and with the consent of the bank so appointed.

"Related Fund" in relation to a fund (the **"first fund"**), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

"Relevant Interbank Market" means in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

"Repeating Representations" means each of the representations and warranties set out in Clause 18.2 (*Status*) to Clause 18.8 (*Financial Statements*) (inclusive), Clause 18.10 (*Litigation*), Clause 18.12 (*Non-Violation of other Agreements*) and Clause 18.13 (*Governing law and enforcement*).

"Representative" means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

"Request" means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

"Rollover Loan" means one or more Loans:

- (a) made or to be made on the same day that a maturing Loan is due to be repaid;
- (b) the aggregate amount of which is equal to or less than the amount of the maturing Loan;
- (c) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of a currency*)); and
- (d) made or to be made to the Company for the purpose of refinancing that maturing Loan.

"Screen Rate" means:

- (a) in relation to LIBOR, the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for the relevant currency and period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate); and
- (b) in relation to EURIBOR, the euro interbank offered rate administered by the Banking Federation of the European Union (or any other person which takes over the administration of that rate) for the relevant period displayed on page EURIBOR01 of the Reuters screen (or any replacement Reuters page which displays that rate),

or, in each case, on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Company.

"**Secretary of State**" means the Secretary of State for Business, Innovation and Skills.

"**Security Interest**" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

"**Specified Time**" means a time determined in accordance with Schedule 7 (*Timetables*).

"**Sterling**" and "**£**" mean the lawful currency of the United Kingdom.

"**Subordination Deed**" means a document in the form set out in Schedule 8 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

"**Subsidiary**" means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single platform and which was launched on 19 November 2007.

"**TARGET Day**" means any day on which TARGET2 is open for the settlement of payments in euro.

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

"**Tax Deduction**" means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

"**Tax Payment**" means either an increase in a payment made by the Company to a Finance Party under Clause 14.2 (*Tax gross-up*) or a payment under Clause 14.3 (*Tax indemnity*).

"**Term**" means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

"**Total Commitments**" means the aggregate of the Commitments being £300,000,000 at the date of this Agreement.

"**Transfer Certificate**" means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

"**Transfer Date**" means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

"**U.K.**" means the United Kingdom.

"**Unpaid Sum**" means any sum due and payable but unpaid by the Company under the Finance Documents.

"**US**" means the United States of America.

"**U.S. Dollars**" and "**U.S.\$**" means the lawful currency for the time being of the United States of America.

"**VAT**" means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

Construction

1.2.1 The following definitions have the meanings given to them in Clause 20 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;
- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;

- (b) **assets** includes present and future properties, revenues and rights of every description;
 - (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
 - (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
 - (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
 - (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
 - (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
 - (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
 - (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
 - (j) a currency is a reference to the lawful currency for the time being of the relevant country;
 - (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
 - (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
 - (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
 - (n) a person includes its successors in title, permitted assigns and permitted transferees;
 - (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
 - (p) a time of day is a reference to London time.
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1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:

- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
- (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
- (c) notwithstanding sub-clause 1.2.3(a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.

1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.

1.2.5 Unless the contrary intention appears:

- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
- (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
- (c) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is or may be outstanding under the Finance Documents.

1.2.6 The headings in this Agreement do not affect its interpretation.

1.2.7 The Company providing cash cover for an Ancillary Facility means the Company paying an amount in the currency of the Ancillary Facility to an interest-bearing account in the name of the Company and the following conditions being met:

- (a) the account is with the Ancillary Lender for which that cash cover is to be provided;
- (b) until no amount is or may be outstanding under that Ancillary Facility, withdrawals from the account may only be made to pay the relevant Finance Party amounts due and payable to it under this Agreement in respect of that Ancillary Facility; and
- (c) the Company has executed a security document over that account, in form and substance satisfactory to the Ancillary Lender with which that account is held, creating a first ranking security interest over that account.

1.2.8 The Company repaying or prepaying any Ancillary Outstandings means:

- (a) the Company providing cash cover in respect of the Ancillary Outstandings;
- (b) the maximum amount payable under the Ancillary Facility being reduced or cancelled in accordance with its terms; or
- (c) the Ancillary Lender being satisfied (acting reasonably) that it has no further liability under that Ancillary Facility,

and the amount by which Ancillary Outstandings are repaid or prepaid under paragraphs (a) and (b) above is the amount of the relevant cash cover or reduction or cancellation.

1.2.9 An amount borrowed includes any amount utilised under an Ancillary Facility.

2. THE FACILITY

2.1 The Facility

- 2.1.1 Subject to the terms of this Agreement, the Lenders make available to the Company a multicurrency revolving credit facility in an aggregate amount the Base Currency Amount of which is equal to the Total Commitments.
- 2.1.2 Subject to the terms of this Agreement and the Ancillary Documents, an Ancillary Lender may make all or part of its Commitment available to the Company as an Ancillary Facility.

2.2 Increase

2.2.1 The Company may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 10.6.4 of Clause 10.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with:
 - (i) Clause 10.1 (*Mandatory prepayment – illegality*); or
 - (ii) sub-clause 10.6.2 of Clause 10.6 (*Involuntary prepayment and cancellation*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in the Base Currency of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an "**Increase Lender**") selected by the Company (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;
- (d) the Company and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Company and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;

- (e) each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender;
 - (f) the Commitments of the other Lenders shall continue in full force and effect; and
 - (g) any increase in the Total Commitments shall take effect on the date specified by the Company in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.
- 2.2.2 An increase in the Total Commitments will only be effective on:
- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
 - (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Company and the Increase Lender.
- 2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.
- 2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Company shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Company shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.5 The Company may pay to the Increase Lender a fee in the amount and at the times agreed between the Company and the Increase Lender in a letter between the Company and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.6 Clause 29.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
- (a) an "**Existing Lender**" were references to all the Lenders immediately prior to the relevant increase;
 - (b) the "**New Lender**" were references to that "**Increase Lender**"; and
 - (c) a "**re-transfer**" and "**re-assignment**" were references to respectively a "**transfer**" and "**assignment**".
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2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

2.3 Nature of a Finance Party's rights and obligations

Unless otherwise agreed by all the Finance Parties:

- 2.3.1 the obligations of a Finance Party under the Finance Documents are several;
- 2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;
- 2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
- 2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;
- 2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and
- 2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. PURPOSE

3.1 Purpose

The Company shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group and in compliance with the Licence, but not in the case of any utilisation of any Ancillary Facility towards any prepayment of any Loan.

2 No obligation to monitor

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. CONDITIONS PRECEDENT

4.1 Conditions precedent documents

A Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received (or, subject to all Lender consent, waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Company and the Lenders upon being so satisfied.

4.2 Further conditions precedent

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

- 4.2.1 the Repeating Representations are correct in all material respects; and
- 4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

4.3 Conditions relating to Optional Currencies

4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:

- (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Drawdown Date for that Loan; and
- (b) it is euros or U.S. Dollars or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.

4.3.2 If the Facility Agent has received a written request from the Company for a currency to be approved under paragraph (b) of sub-clause 4.3.1 above, the Facility Agent will confirm to the Company by the Specified Time:

- (a) whether or not the Lenders have granted their approval; and
- (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.

4.4 Maximum number

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 20 Loans outstanding.

5. UTILISATION

5.1 Giving of Requests

5.1.1 The Company may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.

5.1.2 Each Request is irrevocable.

5.2 Completion of Requests

5.2.1 A Request for a Loan will not be regarded as having been duly completed unless:

- (a) the Drawdown Date is a Business Day falling within the Availability Period;
- (b) the currency and amount of the Loan comply with Clause 5.3 (*Currency and amount*); and
- (c) the proposed Term complies with this Agreement.

5.2.2 Only one Loan may be requested in a Request.

5.3 Currency and amount

5.3.1 The currency specified in a Request must be either the Base Currency or an Optional Currency.

5.3.2 The amount of the proposed Loan must be:

- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility (or such other amount as the Facility Agent may agree); or
- (b) if the currency selected is an Optional Currency, the minimum amount (and if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of sub-clause 4.3.2 of Clause 4.3 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility.

5.4 Advance of Loan

- 5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.
- 5.4.2 If the conditions set out in this Agreement have been met, and subject to Clause 9.2 (*Cashless Rollover*), each Lender shall make its participation in each Loan available no later than 2.00 pm on the Drawdown Date through its Facility Office.
- 5.4.3 Save as set out in sub-clause 5.4.4 below, the amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.
- 5.4.4 If a Loan is made to repay Ancillary Outstandings, each Lender's participation in that Loan will be in an amount (as determined by the Facility Agent) which will result as nearly as possible in the aggregate amount of its participation in the Loans then outstanding bearing the same proportion to the aggregate amount of the Loans then outstanding as its Commitment bears to the Total Commitments.
- 5.4.5 No Lender is obliged to participate in a Loan if as a result:
 - (a) the Base Currency Amount of its share in the aggregate amount of the Loans would exceed its Commitment; or
 - (b) the Base Currency Amount of the Loans would exceed the Total Commitments.
- 5.4.6 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount, currency and the Base Currency Amount of each Loan, the amount of its participation in that Loan and, if different, the amount of that participation to be made available in accordance with Clause 17 (*Payments*), in each case by the Specified Time.

6. EXTENSION OPTION

- 6.1 The Company may by notice to the Facility Agent (the **Initial Extension Request**) not more than 60 days and not less than 30 days before the first anniversary of the date of the Amendment Agreement (the **First Anniversary**), request that the Final Maturity Date be extended for a further period of one year.
- 6.2 The Company may by notice to the Facility Agent (the **Second Extension Request**) no more than 60 days and not less than 30 days before the second anniversary of the date of the Amendment Agreement (the **Second Anniversary**), request that the Final Maturity Date:
 - (a) with respect to Lenders who have agreed to the Initial Extension Request, be extended for a further period of one year; and/or

- (b) if no Initial Extension Request has been made, or with respect to Lenders who refused the Initial Extension Request:
 - (i) be extended for a period of one year; or
 - (ii) be extended for a period of two years,as selected by the Company in the notice to the Facility Agent.

6.3 The Facility Agent must promptly notify the Lenders of any Initial Extension Request or Second Extension Request (an **Extension Request**).

6.4 Each Lender may, in its sole discretion, agree to any Extension Request. Each Lender that agrees to an Extension Request by the date falling 15 days before, the relevant anniversary of the date of this Agreement, will extend its Commitment for a further period of one year or two years, as set out in the relevant Extension Request, from the then current Final Maturity Date and the Final Maturity Date of that Lender will be extended accordingly.

6.5 If any Lender fails to reply to an Extension Request on or before the date falling 15 days before the relevant anniversary of the date of this Agreement, it will be deemed to have refused that Extension Request and its Commitment will not be extended.

6.6 Subject to Clause 6.8 below, each Extension Request is irrevocable.

6.7 If one or more (but not all) of the Lenders agree to an Extension Request, then the Facility Agent must notify the Company and the Lenders which have agreed to the extension, identifying in that notification which Lenders have not agreed to the Extension Request.

6.8 The Company may, on the basis that one or more of the Lenders have not agreed to the Extension Request and no later than the date falling 5 days before the relevant anniversary of the date of this Agreement, withdraw the request by notice to the Facility Agent which will promptly notify the Lenders.

7. **OPTIONAL CURRENCIES**

7.1 **Selection**

7.1.1 The Company must select the currency of a Loan in its Request. The Company may select the Base Currency or an Optional Currency for a Loan.

7.1.2 Unless the Facility Agent otherwise agrees, the Loans may not be denominated at any one time in more than three currencies.

7.2 **Revocation of currency**

7.2.1 Notwithstanding any other term of this Agreement, if before the Specified Time on any Quotation Day the Facility Agent receives notice from a Lender that:

- (a) the Optional Currency requested is not readily available to it in the relevant interbank market in the amount and for the period required; or
- (b) participating in a Loan in the proposed Optional Currency might contravene any law or regulation applicable to it,

the Facility Agent must give notice to the Company to that effect promptly and in any event before the Specified Time on that day.

7.2.2 In this event:

- (a) that Lender must participate in the Loan in the Base Currency (in an amount equal to that Lender's proportion of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's proportion of the Base Currency Amount of the Rollover Loan that is due to be made); and
- (b) the share of that Lender in the Loan and any other similarly affected Lender(s) will be treated as a separate Loan denominated in the Base Currency during that Term.

7.2.3 Any part of a Loan treated as a separate Loan under this sub-clause will not be taken into account for the purposes of any limit on the number of Loans or currencies outstanding at any one time.

7.2.4 A Loan will still be treated as a Rollover Loan if it is not denominated in the same currency as the maturing Loan by reason only of the operation of this sub-clause.

7.3 **Optional Currency equivalents**

Except as expressly provided in this Agreement, the equivalent in the Base Currency of a Loan or part of a Loan in an Optional Currency for the purposes of calculating:

7.3.1 whether any limit under this Agreement has been exceeded;

7.3.2 the amount of a Loan;

7.3.3 the share of a Lender in a Loan;

7.3.4 the amount of any repayment of a Loan; or

7.3.5 the undrawn amount of a Lender's Commitment,

is its Base Currency Amount.

8. **ANCILLARY FACILITIES**

8.1 **Type of Facility**

An Ancillary Facility may be by way of:

8.1.1 a multicurrency overdraft facility;

8.1.2 a multicurrency guarantee, bonding, documentary or stand-by letter of credit facility;

8.1.3 a short term multicurrency loan facility;

8.1.4 a derivatives facility;

8.1.5 a foreign exchange facility; or

8.1.6 any other multicurrency facility or accommodation required in connection with the business of the Group and which is agreed by the Company with an Ancillary Lender.

8.2 Availability

- 8.2.1 If the Company and a Lender agree and except as otherwise provided in this Agreement, the Lender may provide all or part of its Commitment as an Ancillary Facility.
- 8.2.2 An Ancillary Facility shall not be made available unless, not later than three Business Days prior to the Ancillary Commencement Date for an Ancillary Facility, the Facility Agent has received from the Company:
- (a) a notice in writing of the establishment of an Ancillary Facility and specifying:
 - (i) the proposed Ancillary Commencement Date and expiry date of the Ancillary Facility;
 - (ii) the proposed type of Ancillary Facility to be provided;
 - (iii) the proposed Ancillary Lender;
 - (iv) the proposed Ancillary Commitment, the maximum amount of the Ancillary Facility and, in the case of a Multi-account Overdraft, its Designated Gross Amount and its Designated Net Amount;
 - (v) the proposed currency of the Ancillary Facility (if not denominated in the Base Currency); and
 - (b) any other information which the Facility Agent may reasonably request in connection with the Ancillary Facility.
- 8.2.3 The Facility Agent shall promptly notify the Ancillary Lender and the other Lenders of the establishment of an Ancillary Facility.
- 8.2.4 Subject to compliance with sub-clause 8.2.2 above:
- (a) the Lender concerned will become an Ancillary Lender; and
 - (b) the Ancillary Facility will be available,
- with effect from the date agreed by the Company and the Ancillary Lender.

8.3 Terms of Ancillary Facilities

- 8.3.1 Except as provided below, the terms of any Ancillary Facility will be those agreed by the Ancillary Lender and the Company.
- 8.3.2 Those terms:
- (a) must be based upon normal commercial terms at that time (except as varied by this Agreement);
 - (b) may only allow the Company to use the Ancillary Facility;
 - (c) may not allow the Ancillary Outstandings to exceed the Ancillary Commitment;
 - (d) may not allow the Ancillary Commitment of a Lender to exceed the Available Commitment of that Lender (before taking into account the effect of the Ancillary Facility on that Available Commitment); and

- (e) must require that the Ancillary Commitment is reduced to nil, and that all Ancillary Outstandings are repaid not later than the Final Maturity Date (or such earlier date as the Commitment of the relevant Ancillary Lender (or its Affiliate) is reduced to zero).

8.3.3 If there is any inconsistency between any term of an Ancillary Facility and any term of this Agreement, this Agreement shall prevail except for (i) Clause 24.3 (*Calculations*) which shall not prevail for the purposes of calculating fees, interest or commission relating to an Ancillary Facility; (ii) an Ancillary Facility comprising more than one account where the terms of the Ancillary Documents shall prevail to the extent required to permit the netting of balances on those accounts; and (iii) where the relevant term of this Agreement would be contrary to, or inconsistent with, the law governing the relevant Ancillary Document, in which case that term of this Agreement shall not prevail.

8.3.4 Interest, commission and fees on Ancillary Facilities are dealt with in Clause 25.6 (*Interest, commission and fees on Ancillary Facilities*).

8.4 Repayment of Ancillary Facility

8.4.1 An Ancillary Facility shall cease to be available on the Final Maturity Date or such earlier date on which its expiry date occurs or on which it is cancelled in accordance with the terms of this Agreement.

8.4.2 If an Ancillary Facility expires or is cancelled in accordance with its terms the Ancillary Commitment of the Ancillary Lender shall be reduced to zero.

8.4.3 No Ancillary Lender may demand repayment or prepayment of any Ancillary Outstandings prior to the expiry date of the relevant Ancillary Facility unless:

- (a) required to reduce the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount;
- (b) the Total Commitments have been cancelled in full, or all outstanding Loans have become due and payable in accordance with the terms of this Agreement;
- (c) it becomes unlawful in any applicable jurisdiction for the Ancillary Lender to perform any of its obligations as contemplated by this Agreement or to fund, issue or maintain its participation in its Ancillary Facility (or it becomes unlawful for any Affiliate of the Ancillary Lender for the Ancillary Lender to do so); or
- (d) both:
 - (i) the Available Commitments; and
 - (ii) the notice of the demand given by the Ancillary Lender,

would not prevent the Company funding the repayment of those Ancillary Outstandings in full by way of Loan.

8.4.4 If a Loan is made to repay Ancillary Outstandings in full, the relevant Ancillary Commitment shall be reduced to zero.

8.5 Limitations on Ancillary Outstandings

The Company shall procure that:

8.5.1 the Ancillary Outstandings under any Ancillary Facility shall not exceed the Ancillary Commitment applicable to that Ancillary Facility; and

8.5.2 in relation to a Multi-account Overdraft:

(a) the Ancillary Outstandings shall not exceed the Designated Net Amount applicable to that Multi-account Overdraft; and

(b) the Gross Outstandings shall not exceed the Designated Gross Amount applicable to that Multi-account Overdraft.

8.6 Information

The Company and each Ancillary Lender shall, promptly upon request by the Facility Agent, supply the Facility Agent with any information relating to the operation of an Ancillary Facility (including the Ancillary Outstandings) as the Facility Agent may reasonably request from time to time. The Company consents to all such information being released to the Facility Agent and the other Finance Parties.

8.7 Affiliates of Lenders as Ancillary Lenders

8.7.1 Subject to the terms of this Agreement, an Affiliate of a Lender may become an Ancillary Lender. In such case, the Lender and its Affiliate shall be treated as a single Lender whose Commitment is the amount set out opposite the relevant Lender's name in Schedule 1 (*Original Parties*) and/or the amount of any Commitment transferred to or assumed by that Lender under this Agreement, to the extent (in each case) not cancelled, reduced or transferred by it under this Agreement.

8.7.2 The Company shall specify any relevant Affiliate of a Lender in any notice delivered by the Company to the Facility Agent pursuant to paragraph 8.2.2(a) of Clause 8.2 (*Availability*).

8.7.3 If a Lender assigns all of its rights and benefits or transfers all of its rights and obligations to a New Lender, its Affiliate shall cease to have any obligations under this Agreement or any Ancillary Document.

8.7.4 Where this Agreement or any other Finance Document imposes an obligation on an Ancillary Lender and the relevant Ancillary Lender is an Affiliate of a Lender which is not a party to that document, the relevant Lender shall ensure that the obligation is performed by its Affiliate.

8.8 Commitment amounts

Notwithstanding any other term of this Agreement, each Lender shall ensure that at all times its Commitment is not less than its Ancillary Commitment or the Ancillary Commitment of its Affiliate.

8.9 Amendments and Waivers – Ancillary Facilities

No amendment or waiver of a term of any Ancillary Facility shall require the consent of any Finance Party other than the relevant Ancillary Lender unless such amendment or waiver itself relates to or gives rise to a matter which would require an amendment of or under this Agreement (including, for the avoidance of doubt, under this Clause). In such a case, the provisions of this Agreement with regard to amendments and waivers will apply.

9. REPAYMENT

1 Repayment of Loans

9.1.1 The Company must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.

9.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 9.1.1 above may be re-borrowed.

9.2 Cashless Rollover

9.2.1 Without prejudice to the Company's obligation under Clause 9.1 above, if one or more Loans are to be made available to the Company:

- (a) on the same day that a maturing Loan is due to be repaid by the Company;
- (b) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of currency*)); and
- (c) in whole or in part for the purpose of refinancing the maturing Loan,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (i) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
 - (A) the Company will only be required to pay an amount in cash in the relevant currency equal to that excess; and
 - (B) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (ii) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
 - (A) the Company will not be required to make any payment in cash; and
 - (B) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation in the maturing Loan.

10. PREPAYMENT AND CANCELLATION

10.1 Mandatory prepayment - illegality

10.1.1 A Lender must notify the Company promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.

10.1.2 After notification under clause 10.1.1 above:

(a) the Company must repay or prepay the share of that Lender in each Loan made to it on the date specified in clause 10.1.3 below; and

(b) the Commitments of that Lender will be immediately cancelled.

10.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:

(a) the Business Day following receipt by the Company of notice from the Lender under sub-clause 10.1.1 above; or

(b) if later, the latest date allowed by the relevant law.

10.2 Mandatory prepayment - change of control

If, except in the context of a group reorganisation where the Company continues to be controlled directly or indirectly by PPL, the Company becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Company (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 839 of the Taxes Act) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

10.2.1 within five days of such date, the Company shall give notice of such change of control to the Facility Agent;

10.2.2 the Lenders and the Company shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;

10.2.3 if no such agreement is reached within the said period of 45 days then:

(a) any Lender may on 10 days' notice to the Facility Agent and to the Company require the repayment of its share in each Loan and the repayment of its Ancillary Outstandings and cancel its Commitment; and

(b) the Majority Lenders may on 10 days' notice to the Company require repayment in full of all outstanding Loans and Ancillary Outstandings and cancel the Total Commitments; and

10.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 10.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 10.2.3.

10.3 Voluntary prepayment

10.3.1 The Company may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.

- 10.3.2 A prepayment of part of a Loan drawn in US Dollars must be in a minimum amount of \$5,000,000 and an integral multiple of U.S. \$1,000,000.
- 10.3.3 A prepayment of part of a Loan drawn in Sterling must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.3.4 A prepayment of part of a Loan drawn in euros must be in a minimum amount of €5,000,000 and an integral multiple of €1,000,000.

10.4 Automatic cancellation

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

10.5 Voluntary cancellation

- 10.5.1 The Company may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.
- 10.5.2 Partial cancellation of the Total Commitments must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.5.3 Any cancellation in part shall be applied against the Commitment of each Lender pro rata.

10.6 Involuntary prepayment and cancellation

- 10.6.1 If the Company is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.
- 10.6.2 After notification under sub-clause 10.6.1 above:
- (a) the Company must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 10.6.3 below; and
 - (b) the Commitments of that Lender will be immediately cancelled.
- 10.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Company in its notification.
- 10.6.4
- (a) If any Lender becomes a Defaulting Lender, the Company may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent 5 Business Days' notice of cancellation of the Available Commitment of that Lender.
 - (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
 - (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

10.7 Re-borrowing of Loans

Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

10.8 Miscellaneous provisions

- 10.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.
- 10.8.2 All prepayments made under Clause 10.2 (*Mandatory prepayment - change of control*) shall be applied *pro rata* to each Lender's participation in such Loan.
- 10.8.3 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- 10.8.4 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.
- 10.8.5 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- 10.8.6 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

11. INTEREST

11.1 Calculation of interest

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- 11.1.1 Margin; and
- 11.1.2 LIBOR or, in relation to any Loan in euro, EURIBOR.

11.2 Payment of interest

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

11.3 Interest on overdue amounts

- 11.3.1 If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.
- 11.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting reasonably):

- (a) select successive Terms of any duration of up to three months; and
- (b) determine the appropriate Quotation Day for that Term.

11.3.3 Notwithstanding sub-clause 11.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 11.3.2 above.

11.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

11.4 Notification of rates of interest

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

12. TERMS

12.1 Selection

12.1.1 Each Loan has one Term only.

12.1.2 The Company must select the Term for a Loan in the relevant Request.

12.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or for a period of one to thirty days or any other period agreed between the Company and the Lenders.

12.1.4 The Company shall not use its right under paragraph 12.1.3 above to select for a Loan a Term of less than one month's duration more than six times in any calendar year.

12.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan.

12.2 No overrunning the Final Maturity Date

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

12.3 Other adjustments

12.3.1 The Facility Agent and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.

12.3.2 Subject to Clause 12.3.3 below, if two or more Terms end on the same date, those Loans will, unless the Company specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.

12.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Company requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the Base Currency Amounts specified in that Request, having an aggregate Base Currency Amount equal to the Base Currency Amount of the Loan immediately before its division.

12.4 Notification

The Facility Agent must notify the Company and the Lenders of the duration of each Term promptly after ascertaining its duration.

13. MARKET DISRUPTION

13.1 Failure of a Reference Bank to supply a rate

Subject to the other provisions of this Clause, if LIBOR or, if applicable, EURIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the applicable LIBOR or EURIBOR will be determined on the basis of the quotations of the remaining Reference Banks.

13.2 Market disruption

13.2.1 In this Clause, each of the following events is a **market disruption event**:

- (a) at or about noon on the Quotation Day for the relevant Term, LIBOR or if applicable EURIBOR is to be determined by reference to the Reference Banks and none or only one of the Reference Banks supplies a rate to the Facility Agent to determine LIBOR or, if applicable, EURIBOR for the relevant currency and Term; or
- (b) before close of business in London on the Quotation Day for the relevant Term, the Facility Agent receives notification from a Lender or Lenders whose participations in the relevant Loan exceed 50% of that Loan that the cost to it (or them) of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR or, if applicable, EURIBOR for the relevant Term.

13.2.2 The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.

13.2.3 After notification under sub-clause 13.2.1(a) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin; and
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select.

13.3 Alternative basis of interest or funding

13.3.1 If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more

than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

13.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

14. TAX GROSS-UP AND INDEMNITIES

14.1 Definitions

14.1.1 In this Agreement:

"Qualifying Lender" means:

(a) a Lender (other than a Lender within paragraph (b) below) which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:

(i) a Lender:

(A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document; or

(B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made, and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

and which is within the charge to the United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

(ii) a Lender which is:

(A) a company resident in the United Kingdom for United Kingdom tax purposes;

(B) a partnership each member of which is:

(1) a company so resident in the United Kingdom; or

(2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

(C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company; or

(iii) a Treaty Lender; or

- (b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.

"Tax Confirmation" means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.

"Tax Credit" means a credit against, relief or remission for, or repayment of any Tax.

"Treaty Lender" means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
 - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Company and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

"Treaty State" means a jurisdiction having a double taxation agreement (a **"Treaty"**) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

"UK Non-Bank Lender" means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement or Transfer Certificate which it executes on becoming a Party.

14.1.2 Unless a contrary indication appears, in this Clause 14 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

14.2 Tax gross-up

14.2.1 The Company shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

14.2.2 The Company shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Company.

14.2.3 If a Tax Deduction is required by law to be made by the Company, the amount of the payment due from the Company shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

14.2.4 A payment shall not be increased under sub-clause 14.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or
- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a "**Direction**") under section 931 of the ITA which relates to the payment and that Lender has received from the Company a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) the relevant Lender has not given a Tax Confirmation to the Company; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Company

on the basis that the Tax Confirmation would have enabled the Company to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or

- (d) the relevant Lender is a Treaty Lender and the Company making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 14.2.7 below.
- 14.2.5 If the Company is required to make a Tax Deduction, the Company shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- 14.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Company making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.
- 14.2.7
- (a) Subject to paragraph (b) below, a Treaty Lender and the Company which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Company to obtain authorisation to make that payment without a Tax Deduction.
 - (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or
 - (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with paragraph 14.2.10 below or paragraph 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Company making that payment has not complied with its obligations under paragraph 14.2.11 below or paragraph 14.6.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).
- 14.2.8 A UK Non-Bank Lender which becomes a Party on the day on which this Agreement is entered into gives a Tax Confirmation to the Company by entering into this Agreement.
- 14.2.9 A UK Non-Bank Lender shall promptly notify the Company and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 14.2.10 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
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- 14.2.11 Where a Lender includes the indication described in paragraph 14.2.10 above in Schedule 1 (*Original Parties*), the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing provided that the Company shall not be liable in respect of any non-compliance with its obligations under this Clause 14.2.11 where such non-compliance is due to circumstances beyond the control of the Company (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Company, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 14.2.12 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with Clause 14.2.10 or Clause 14.6.1 will reasonably promptly notify the Facility Agent and the Company if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
- 14.2.13 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.2.10 above or sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*), the Company shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

14.3 Tax indemnity

- 14.3.1 Except as provided below, the Company must, within three Business Days of demand, indemnify a Finance Party against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.
- 14.3.2 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:
- (a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
 - (b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction,
- if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.
- 14.3.3 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:
- (a) is compensated for by an increased payment under Clause 14.2 (*Tax gross-up*);
 - (b) would have been compensated for by an increased payment under Clause 14.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 14.2 (*Tax gross-up*) applied; or

(c) relates to a FATCA Deduction required to be made by a Party.

14.3.4 A Finance Party making, or intending to make, a claim under sub-clause 14.3.1 above must promptly notify the Company of the event which will give, or has given, rise to the claim.

14.4 Tax Credit

If the Company makes a Tax Payment and the relevant Finance Party has obtained, used and retained any Tax Credit that is attributable to that Tax Payment, then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, that Finance Party must pay an amount to the Company which that Finance Party determines (in its discretion, acting reasonably) will leave it (after that payment) in the same after-tax position as it would have been in if the Tax Payment had not been required to be made by the Company. The relevant Finance Party shall take those steps it considers in its opinion reasonable to seek and claim any tax credit.

14.5 Lender Status Confirmation

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Company, which of the following categories it falls in:

14.5.1 not a Qualifying Lender;

14.5.2 a Qualifying Lender (other than a Treaty Lender); or

14.5.3 a Treaty Lender.

If a New Lender fails to indicate its status in accordance with this Clause 14.5 then such New Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Company). For the avoidance of doubt, a Transfer Certificate or assignment agreement shall not be invalidated by any failure of a Lender to comply with this Clause 14.5.

14.6 HMRC DT Treaty Passport scheme confirmation

14.6.1 A New Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) in the Transfer Certificate or Increase Confirmation which it executes by including its scheme reference number and its jurisdiction of tax residence in that Transfer Certificate or Increase Confirmation.

14.6.2 Where a New Lender includes the indication described in sub-clause 14.6.1 above in the relevant Transfer Certificate or Increase Confirmation the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date and shall promptly provide the Lender with a copy of that filing.

14.7 Stamp taxes

The Company shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

14.8 VAT

- 14.8.1 All amounts set out, or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, and accordingly, subject to sub-clause 14.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).
- 14.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the "**Supplier**") to any other Finance Party (the "**Recipient**") under a Finance Document, and any Party other than the Recipient (the "**Subject Party**") is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Subject Party an amount equal to any credit or repayment obtained by the Recipient from the relevant tax authority which the Recipient reasonably determines is in respect of such VAT.
- 14.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.
- 14.8.4 Any reference in this Clause 14.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term "representative member" to have the same meaning as in the Value Added Tax Act 1994).

14.9 FATCA Information

- 14.9.1 Subject to sub-clause 14.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:
- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party; and

- (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA;
- (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.

14.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 14.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.

14.9.3 Sub-clause 14.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 14.9.1 above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:

- (a) any law or regulation;
- (b) any fiduciary duty; or
- (c) any duty of confidentiality.

14.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a) or (b) of sub-clause 14.9.1 above (including, for the avoidance of doubt, where sub-clause 14.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

14.10 FATCA Deduction

14.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction, or otherwise compensate the recipient of the payment for that FATCA Deduction.

14.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Company, the Facility Agent and the other Finance Parties.

15. INCREASED COSTS

15.1 Increased Costs

Except as provided below in this Clause, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 15.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;

- 15.1.2 compliance with any law or regulation made after the date of this Agreement **provided that** for the purposes of this Agreement and any other Finance Document, Dodd-Frank shall be deemed to be a law or regulation made after the date of this Agreement; or
- 15.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV.

15.2 Exceptions

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 15.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 15.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates;
- 15.2.3 attributable to a FATCA Deduction required to be made by a Party;
- 15.2.4 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation;
- 15.2.5 attributable to the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) (**Basel II**) or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or
- 15.2.6 not notified by the relevant Finance Party to the Facility Agent and the Company within three Months of that Finance Party becoming aware of such Increased Cost.

15.3 Claims

A Finance Party intending to make a claim for an Increased Cost must notify the Company promptly of the circumstances giving rise to, and the amount of, the claim.

16. MITIGATION

16.1 Mitigation

- 16.1.1 Each Finance Party must, in consultation with the Company (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:
 - (a) any Tax Payment or Increased Cost being payable to that Finance Party;
 - (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
 - (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or

(d) the occurrence of any market disruption event,

including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.

16.1.2 A Finance Party is not obliged to take any step under this Clause 16 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.

16.1.3 Each Finance Party must promptly notify the Company of any circumstances as described in paragraphs (a) to (d) of sub-clause 16.1.1 of this Clause 16.1.

16.1.4 The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 16.1.

16.1.5 This Clause does not in any way limit the obligations of the Company under the Finance Documents.

16.2 Substitution

Notwithstanding Clause 16.1 (*Mitigation*), if any circumstances arise which result in:

16.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;

16.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;

16.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank;

16.2.4 the occurrence of any market disruption event; or

16.2.5 any Lender becoming a Non-Consenting Lender,

then the Company, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a "**Replacement Finance Party**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party's participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that:**

16.2.6 the Company shall have no right to replace the Facility Agent;

16.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Company to find a Replacement Finance Party;

16.2.8 the transfer must take place no later than 14 days after the notice referred to above;

- 16.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and
- 16.2.10 the Finance Party shall only be obliged to transfer its rights and obligations pursuant to this Clause 16.2 once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

16.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

- 16.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or
- 16.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

17. **PAYMENTS**

17.1 **Place**

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents, excluding a payment under the terms of an Ancillary Document, must be made to the Facility Agent to its account at such office or bank:

- 17.1.1 in the principal financial centre of the country of the relevant currency; or
- 17.1.2 in the case of euro, in the principal financial centre of a Participating Member State or London, as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

17.2 **Funds**

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

17.3 **Distribution**

- 17.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank:
- (a) in the principal financial centre of the country of the relevant currency; or
 - (b) in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.

- 17.3.2 The Facility Agent may apply any amount received by it for the Company in or towards payment (as soon as practicable after receipt) of any amount due from the Company under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.
- 17.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

17.4 Currency of account

- 17.4.1 Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Clause.
- 17.4.2 Interest is payable in the currency in which the relevant amount in respect of which it is payable is denominated.
- 17.4.3 A repayment or prepayment of any principal amount (or overdue amount) is payable in the currency in which that principal amount (or overdue amount) is denominated on its due date.
- 17.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.
- 17.4.5 Each other amount payable under the Finance Documents is payable in Sterling.
- 17.4.6 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

17.5 No set-off or counterclaim

All payments made by the Company under the Finance Documents must be made without set-off or counterclaim.

17.6 Business Days

- 17.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.
- 17.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

17.7 Impaired Agent

- 17.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Company or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 17.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Company or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
- 17.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 17.7.3 A Party which has made a payment in accordance with this Clause 17.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.
- 17.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 23.14 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 17.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 17.3 (*Distribution*).
- 17.7.5 For the purposes of this Clause 17.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

17.8 Partial payments

- 17.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Company under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Company under the Finance Documents in the following order:
- (a) **first**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;
 - (b) **secondly**, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;
 - (c) **thirdly**, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and
 - (d) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- 17.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 17.8.1 of this Clause 17.8.

17.8.3 This Clause will override any appropriation made by the Company.

17.9 Timing of payments

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

18. REPRESENTATIONS

18.1 Representations

The representations set out in this Clause are made by the Company to each Finance Party on the date of this Agreement.

18.2 Status

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

18.3 Powers and authority

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

18.4 Legal validity

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

18.5 Non-conflict

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

18.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

18.5.2 its constitutional documents.

18.6 No default

18.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

18.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

18.7 Authorisations

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

18.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

18.7.2 to make the Finance Documents admissible in evidence in England and Wales,

have been obtained or effected (as appropriate) and are in full force and effect.

18.8 Financial statements

Its audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

18.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

18.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up, except, in each case, as disclosed to the contrary in those financial statements..

18.9 No material adverse change

Other than as disclosed in writing to the Arranger prior to the date of this Agreement there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

18.10 Litigation

No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

3.11 Winding Up

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

18.12 Non-Violation of other Agreements:

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

18.13 Governing Law and Enforcement

18.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

18.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

18.14 Deduction of Tax

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

18.14.1 a Qualifying Lender:

- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
- (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
- (c) falling within paragraph (b) of the definition of Qualifying Lender or;

18.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

18.15 No filing or stamp taxes

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

18.16 No misleading information

Save as disclosed in writing to the Facility Agent and the Arrangers prior to the Effective Date (as defined in the Amendment Agreement):

- 18.16.1 any written factual information provided by any member of the Group or on its behalf was true and accurate in all material respects as at the date of the relevant report or document or as at the date (if any) at which it is stated to be given;
- 18.16.2 the financial projections provided have been prepared on the basis of recent historical information and on the basis of reasonable assumptions as at the date provided; and
- 18.16.3 no event or circumstance has occurred or arisen and no information has been given or withheld that results in the information, opinions, intentions, forecasts or projections contained in such written information being untrue or misleading in any material respect.

18.17 Pari Passu ranking

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

18.18 Licence

The Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of the Licence.

18.19 Sanctions

No member of the Group or, to the knowledge of the Company, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "**Person**") currently the subject of any sanctions administered or enforced by the U.S.

Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions. The Company represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

18.20 **Anti-Corruption**

Each member of the Group has conducted its business in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance by that member of the Group with such laws.

18.21 **Times for making representations**

18.21.1 The representations set out in this Clause are made by the Company on the date of this Agreement.

18.21.2 The Repeating Representations are deemed to be repeated by the Company on the date of each Request and the first day of each Term.

18.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

19. **INFORMATION COVENANTS**

19.1 **Financial statements**

19.1.1 The Company must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its audited consolidated financial statements for each of its financial years; and
- (b) its interim consolidated financial statements for the first half-year of each of its financial years.

19.1.2 All financial statements must be supplied as soon as they are available and:

- (a) in the case of the Company's audited consolidated financial statements, within 180 days; and
- (b) in the case of the Company's interim financial statements, within 90 days,

of the end of the relevant financial period.

19.2 **Form of Financial Statement**

If any financial statement delivered or to be delivered to the Facility Agent under Clause 19.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

19.2.1 the Company and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Company, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 20 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

19.2.2 if amendments are agreed by the Company and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

19.2.3 if such amendments are not so agreed within 25 days, the Company shall:

(a) within 30 days after the end of that 25 day period; and

(b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 19.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

19.3 Compliance Certificate

19.3.1 The Company must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.

19.3.2 Each Compliance Certificate must be signed by two directors of the Company.

19.4 Information - miscellaneous

The Company must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

19.4.1 copies of all documents despatched by the Company to its creditors generally (or any class of them) in each case at the same time as they are despatched;

19.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;

19.4.3 promptly, details of the loss of the Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of the Licence;

19.4.4 promptly on receiving them, details of any modification of an Authorisation or other material regulatory notices from OFGEM or other government agency;

19.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which the Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);

19.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);

- 19.4.7 within 5 Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Company;
- 19.4.8 the Company shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Company), actuarial reports in relation to all pension schemes mentioned in sub-clause 21.15.1 of Clause 21.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Company is at that time a participating employer and to those reports which have been provided to the Company;
- 19.4.9 promptly on request, a list of the then current Material Subsidiaries; and
- 19.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

19.5 Notification of Default

- 19.5.1 The Company must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- 19.5.2 Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

19.6 Use of websites

- 19.6.1 Except as provided below, the Company may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:
 - (a) the Facility Agent and the Lender agree;
 - (b) the Company and the Facility Agent designate an electronic website for this purpose;
 - (c) the Company notifies the Facility Agent of the address of and password for the website; and
 - (d) the information posted is in a format agreed between the Company and the Facility Agent.
- The Facility Agent must supply each relevant Lender with the address of and password for the website.
- 19.6.2 Notwithstanding the above, the Company must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:
 - (a) any Lender not agreeing to receive information via the website; and
 - (b) any other Lender within ten Business Days of request by that Lender.

19.6.3 The Company must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

- (a) the website cannot be accessed;
- (b) the website or any information on the website is infected by any electronic virus or similar software;
- (c) the password for the website is changed; or
- (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Company must supply any information required under this Agreement in paper form.

19.7 Know your customer requirements

19.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of the Company after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

20. FINANCIAL COVENANTS

20.1 Definitions

In this Clause:

"Cash" means, at any time, cash denominated in a currency of the United States of America, the United Kingdom, any member state of the European Union or any Participating Member State in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
- (c) there is no Security Interest over that cash other than Security Interests permitted under sub-clause 21.5.3(k) of Clause 21.5 (*Negative pledge*); and
- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

"Cash Equivalent Investments" means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited;
 - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days' notice; or

(f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under sub-clauses 21.5.3(1) and (k) of Clause 21.5 (*Negative pledge*)).

"**Consolidated EBITDA**" means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

"**Interest Payable**" means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the Base Currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

"**Measurement Period**" means each period of twelve months ending on 31 March or 30 September.

"**Regulatory Asset Base**" means at any date, the regulatory asset base of the Company for such date as last determined and notified to the Company by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

"**Total Net Debt**" means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

20.2 Interpretation

20.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

20.2.2 Any amount in a currency other than the Base Currency is to be taken into account at its Base Currency equivalent calculated on the basis of:

- (a) the Agent's Spot Rate of Exchange on the day the relevant amount falls to be calculated; or
- (b) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.

20.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

20.3 Interest cover

The Company must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

20.4 Asset Cover

The Company must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of its Regulatory Asset Base.

21. GENERAL COVENANTS

21.1 General

The Company agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Material Subsidiary or each member of the Group, the Company must ensure that each of its Material Subsidiaries or each of its Subsidiaries, as the case may be, performs that covenant.

21.2 Authorisations

The Company must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or, subject to the Reservations, for the validity or enforceability of, any Finance Document.

21.3 Compliance with laws

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

21.4 Pari passu ranking

The Company must ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

21.5 Negative pledge

In this Clause 21.5, "**Quasi-Security Interest**" means an arrangement or transaction described in sub-clause 21.5.2 below.

21.5.1 Except as provided below, neither the Company nor any Material Subsidiary may create or allow to exist any Security Interest or Quasi-Security Interest on any of its assets.

21.5.2 Except as provided below, neither the Company nor any Material Subsidiary may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Company or any Material Subsidiary;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

21.5.3 Sub-clauses 21.5.1 and 21.5.2 do not apply to:

- (a) any lien arising by operation of law and in the ordinary course of trading;
- (b) any netting or set-off arrangement entered into by the Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances (including a Multi-Account Overdraft) of members of the Group;
- (c) any Security Interest or Quasi-Security Interest created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
- (d) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
- (e) any Security Interest or Quasi-Security Interest arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
- (f) any Security Interest or Quasi-Security Interest created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (g) any Security Interest or Quasi-Security Interest outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (h) any Security Interest or Quasi-Security Interest created or outstanding on or over any asset of any company which becomes a Material Subsidiary of the Company after the date of this Agreement where such Security Interest or Quasi-Security Interest is created prior to the date on which such company becomes a Material Subsidiary of the Company and is not created or increased in contemplation of such company being acquired and/or becoming a Material Subsidiary of the

Company and the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of such company becoming a Material Subsidiary of the Company;

- (i) any Quasi-Security Interest arising as a result of a disposal which is a disposal permitted under sub-clause 21.6.2;
- (j) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
- (k) any Security Interest or Quasi-Security Interest over bank accounts of the Company in favour of the account holding bank with whom it maintains a banking relationship in the ordinary course of trade and granted as part of that bank's standard terms and conditions;
- (l) any Security Interest or Quasi-Security Interest created or outstanding with the prior approval of the Majority Lenders; and
- (m) any Security Interest or Quasi-Security Interest created or outstanding on or over assets of the Company or any of its Material Subsidiaries provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security Interest created or outstanding under this exception on or over such assets shall not at any time exceed £25,000,000 or its equivalent.

21.6 Disposals

21.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash) where the higher of the market value and the net consideration receivable (when aggregated with the higher of the market value and the net consideration receivable from any previous disposal by members of the Group) exceeds £5,000,000 (or its equivalent) in total during the term of this Agreement.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity (including, without limitation, disposals of subsidiaries or lines of business, provided that this shall not include a disposal of the core electricity distribution business);
- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
- (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
- (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 12 months of that disposal (or, if contractually committed to be used within 12 months, are actually used within 18 months of that disposal);

- (e) the disposal of assets by one wholly-owned Subsidiary of the Company to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Company by one of its Subsidiaries;
- (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, provided that the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £50,000,000;
- (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account;
- (h) arising as a result of any Security Interest or Quasi-Security Interest permitted under sub-clause 21.5.3 above;
- (i) the application or disposal of cash not otherwise prohibited under the Finance Documents;
- (j) any disposal by a member of Group compulsorily required by law or regulation having the force of law or any order of any government entity made thereunder and having the force of law provided that and to the extent permitted by such law or regulation:
 - (i) such disposal is made for fair market value; and
 - (ii) such disposal does not have a Material Adverse Effect.

21.7 Environmental matters

21.7.1 The Company will and will ensure that its Material Subsidiaries will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

21.7.2 The Company will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against any member of the Group which is current, pending or threatened; and
- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against any member of the Group,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

21.8 Insurance

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

21.9 Merger

The Company shall not enter into any amalgamation, demerger, merger or corporate reconstruction.

21.10 Change of business

The Company shall procure that no substantial change is made to the general nature of the business of the Company or the Group from that carried on at the date of this Agreement.

21.11 Acquisitions

21.11.1 Except as provided below, neither the Company nor any Material Subsidiary may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

21.11.2 Provided that no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 21.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 21.6.2 of Clause 21.6 (*Disposals*) above;
- (b) an acquisition where the consideration (including associated costs and expenses) for the acquisition (when aggregated with the consideration (including associated costs and expenses) for any other acquisition permitted under this paragraph) during the term of this Agreement does not exceed 2.5% of the sum of the issued share capital, share premium and consolidated reserves (including retained earnings) of the Company, as shown by its most recent audited consolidated financial statements; and
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

21.12 Prohibition on the Debt Purchase Transactions of the Group

The Company shall not, and shall procure that each other member of the Group shall not, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

21.13 Prohibition on Subsidiary Financial Indebtedness

The Company shall procure that no member of the Group (other than the Company) will incur or allow to remain outstanding any Financial Indebtedness unless the relevant member of the Group is a special purpose vehicle incorporated solely for the purpose of incurring such Financial Indebtedness and which does not undertake any other activities.

21.14 Arm's length transactions

The Company shall not (and the Company shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value where to do so would be in contravention of the Licence, provided that if, at any time, the Licence is not in effect, the Company shall not (and shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value.

21.15 Pensions

- 21.15.1 The Company shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).
- 21.15.2 Except for in respect of the Electricity Supply Pension Scheme (and in particular the E.On Group, Networks Group and in the case of merger, the WPD Group), the Company shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.
- 21.15.3 The Company shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 21.15.2 above paid or required (by law or otherwise).
- 21.15.4 The Company shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.
- 21.15.5 The Company shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

21.16 Licence

The Company will at all times:

- 21.16.1 comply with the terms of the Licence in all material respects;
- 21.16.2 without prejudice to the generality of sub-clause 21.16.1 above, comply with the ring fencing provisions of the Licence in all respects; and
- 21.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of the Licence.

21.17 Investment Grade Rating

The Company shall procure that the long-term, unsecured and non credit-enhanced debt obligations of the Company shall be rated Baa3/BBB-, or such higher rating as required by the Licence, or above, by at least one of Moody's and Standard and Poor's and shall not be rated below Baa3/BBB-, or such higher rating as required by the Licence, by either of Moody's or Standard and Poor's.

21.18 Sanctions

- 21.18.1 Neither the Company, nor any other member of the Group, shall be the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "OFAC"), the United Nations Security Council (the "UNSC"), the European Union, Her Majesty's Treasury (the "HMT"), or other relevant sanctions authority (collectively, "Sanctions"), and no member of the Group shall be located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.

21.18.2 The Company undertakes that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity (the "**Person**"), to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

21.18.3 The Company shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Syria, Cuba, Iran, North Korea, Sudan or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

21.19 **Anti-Corruption**

21.19.1 The Company shall not (and shall ensure that no other member of the Group will) use the proceeds, or cause or permit the proceeds of any Loan to be used, directly or indirectly, in any way that would be in breach of applicable anti-corruption laws.

21.19.2 The Company shall (and shall ensure that each other member of the Group will):

- (a) conduct its businesses in compliance with applicable anti-corruption laws; and
- (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

22. **DEFAULT**

22.1 **Events of Default**

Each of the events set out in this Clause is an Event of Default.

22.2 **Non-payment**

The Company fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- (a) administrative or technical error; or
- (b) a Disruption Event,

and payment is made within 5 Business Days of its due date.

22.3 **Breach of other obligations**

22.3.1 The Company does not perform or comply with its obligations under Clause 20 (*Financial Covenants*), Clause 21.5 (*Negative pledge*), Clause 21.6 (*Disposals*) or Clause 21.11 (*Acquisitions*).

22.3.2 The Company does not perform or comply with any of its other obligations under any Finance Document in any material respect or any representation or warranty by the Company in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of

remedy and is not remedied within 20 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Company becoming aware of such non-compliance or misrepresentation, as the case may be.

22.4 Cross-default

- 22.4.1 Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.
- 22.4.2 Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.3 Any commitment for any Financial Indebtedness of any member of the Group is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).
- 22.4.4 Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.5 No Event of Default will occur under this Clause 22.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 22.4.1 to 22.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

22.5 Insolvency

- 22.5.1 Any of the following occurs in respect of the Company:
 - (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
 - (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
 - (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
 - (d) a moratorium is declared in respect of any of its indebtedness.
- 22.5.2 If a moratorium occurs in respect of the Company, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

22.6 Insolvency proceedings

- 22.6.1 Except as provided below, any of the following occurs in respect of the Company:
 - (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
 - (b) any person presents a petition for its winding-up, administration or dissolution;
 - (c) an order for its winding-up, administration or dissolution is made;

- (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;
- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

22.6.2 Sub-clause 22.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

22.7 Creditors' process

A distress, attachment, execution or other legal process material in relation to the Company's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Company and is not discharged or stayed within 30 days.

22.8 Licence

Either:

22.8.1 notice is given to revoke or terminate the Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

22.8.2 the Licence is revoked,

in either case, other than in circumstances which permit the Company or its Subsidiaries to carry on the distribution business of the Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the Licence, issued under the Act or pursuant to the Utilities Act, 2000.

22.9 Balancing and Settlement Code

22.9.1 The Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where the Company is able to carry on its distribution business; or

22.9.2 the Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

22.10 Unlawfulness and invalidity

- 22.10.1 It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents in any material respect.
- 22.10.2 Any obligation or obligations of the Company under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.

22.11 Cessation of business

The Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 21.6 (*Disposals*).

22.12 Repudiation and rescission of agreements

The Company (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.

22.13 Ownership of other Group companies

The Company ceases to own (directly or indirectly) 100% of the shares in any of its Subsidiaries:

- (a) which is engaged in the core electricity distribution business; or
- (b) in respect of which it has any actual or contingent financial obligations other than as a result of a solvent liquidation or reorganisation so long as any payments or assets distributed as a result of such solvent liquidation or reorganisation are distributed to other members of the Group.

22.14 Material Adverse Effect

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

22.15 Acceleration

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Company:

22.15.1 cancel the Total Commitments and/or Ancillary Commitments; and/or

22.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:

- (a) immediately due and payable; and/or
- (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders; and/or

22.15.3 declare that full cash cover in respect of all or part of the amounts outstanding under the Ancillary Facilities is immediately due and payable whereupon it shall become immediately due and payable or payable on demand at which time it shall become payable on demand by the Facility Agent on the instructions of the Majority Lenders.

Any notice given under this sub-clause will take effect in accordance with its terms.

3. THE ADMINISTRATIVE PARTIES

23.1 Appointment and duties of the Facility Agent

- 23.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.
- 23.1.2 Each Finance Party irrevocably authorises the Facility Agent to:
- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
 - (b) execute each Finance Document expressed to be executed by the Facility Agent.
- 23.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.
- 23.1.4 The Facility Agent shall provide to the Company within three Business Days of a request by the Company (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

23.2 Role of the Arrangers

Except as specifically provided in the Finance Documents, the Arranger does not have any obligations of any kind to any other Party in connection with any Finance Document.

23.3 No fiduciary duties

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person. No Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

23.4 Individual position of an Administrative Party

- 23.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.
- 23.4.2 Each Administrative Party and each Ancillary Lender may:
- (a) carry on any business with the Company or its related entities (including acting as an agent or a trustee for any other financing); and

- (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Company or its related entities.

23.5 **Reliance**

The Facility Agent may:

- 23.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;
- 23.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;
- 23.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and
- 23.5.4 act under the Finance Documents through its personnel and agents.

23.6 **Majority Lenders' instructions**

- 23.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.
- 23.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.
- 23.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.

23.7 **Responsibility**

- 23.7.1 No Administrative Party and no Ancillary Lender is responsible to any other Finance Party for the adequacy, accuracy or completeness of:
 - (a) any Finance Document or any other document; or
 - (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.
- 23.7.2 Without affecting the responsibility of the Company for information supplied by it or on its behalf in connection with any Finance Document, each Lender and each Ancillary Lender confirms that it:
 - (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets); and

- (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.

23.7.3

- (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
- (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it may not rely on any statement in relation to those requirements made by any other person.

23.8 Exclusion of liability

- 23.8.1 Neither the Facility Agent nor any Ancillary Lender is liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- 23.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.
- 23.8.3 No Party (other than the Facility Agent or the Ancillary Lender) may take any proceedings against any officer, employee or agent of the Facility Agent or any Ancillary Lender in respect of any claim it might have against the Facility Agent or any Ancillary Lender or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent or any Ancillary Lender may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

23.9 Default

- 23.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.
- 23.9.2 If the Facility Agent:
 - (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
 - (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,it must promptly notify the Lenders.

23.10 Information

- 23.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.

- 23.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 23.10.3 Except as provided above, the Facility Agent has no duty:
- (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of the Company or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or
 - (b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Company.
- 23.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.
- 23.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.
- 23.10.6 The Company irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.
- 23.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Company and shall disclose the same upon the written request of the Company or the Majority Lenders.

23.11 Indemnities

- 23.11.1 Without limiting the liability of the Company under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Company for such loss or liability.
- 23.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.
- 23.11.3 The Company must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:
- (a) investigating any event which the Facility Agent reasonably believes to be a Default; or
 - (b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

23.12 Compliance

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

23.13 Resignation of the Facility Agent

- 23.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Company.
- 23.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Company, in which case the Majority Lenders may appoint a successor Facility Agent.
- 23.13.3 If no successor Facility Agent has been appointed under sub-clause 23.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.
- 23.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Company prior to the appointment. Any successor Facility Agent must have an office in the U.K.
- 23.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term "**Facility Agent**" will mean the successor Facility Agent.
- 23.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.
- 23.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 23.13.6 above, it will have no further obligations under any Finance Document.

23.14 Replacement of the Facility Agent

- 23.14.1 After consultation with the Company, the Majority Lenders may, by giving 30 days' notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).
- 23.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.

23.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 23 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).

23.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

23.15 Relationship with Lenders

23.15.1 Subject to Clause 29.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.

23.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

23.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

23.16 Facility Agent's management time

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

23.17 Notice period

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

23.18 Subordination Deed

The Facility Agent will execute any Subordination Deed within two Business Days of receipt of a request (which shall include an execution version of such Subordination Deed) from the Company.

24. EVIDENCE AND CALCULATIONS

24.1 Accounts

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

24.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

24.3 **Calculations**

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

25. **FEES**

25.1 **Agency fee**

The Company must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Company.

25.2 **Arrangement and participation fees**

The Company must pay the upfront fees in the manner agreed between the Arrangers and the Company.

25.3 **Co-ordination fee**

The Company must pay a co-ordination fee in the manner agreed between the Joint Coordinators and the Company.

25.4 **Commitment fee**

25.4.1 The Company must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.

25.4.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.4.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

25.5 **Utilisation fee**

25.5.1 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate Base Currency Amount of all Loans exceeds 33.3 per cent. of the Total Commitments.

25.5.2 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans for each day on which the Base Currency Amount of all Loans exceeds 66.6 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 25.5.1 above is not payable in respect of any day for which the fee described in this sub-clause 25.5.2 is payable.

25.5.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.

25.5.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.6 Interest, commission and fees on Ancillary Facilities

The rate and time of payment of interest, commission, fees and any other remuneration in respect of each Ancillary Facility shall be determined by agreement between the relevant Ancillary Lender and the Company based upon normal market rates and terms.

26. INDEMNITIES AND BREAK COSTS

26.1 Currency indemnity

26.1.1 The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

- (a) that Finance Party receiving an amount in respect of the Company's liability under the Finance Documents; or
- (b) that liability being converted into a claim, proof, judgment or order,

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

26.1.2 Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

26.2 Other indemnities

The Company shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

26.2.1 the occurrence of any Event of Default;

26.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or

26.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Company otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

26.3 Break Costs

26.3.1 The Company must pay to each Lender its Break Costs within three Business Days of demand.

26.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:

- (a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

26.3.3 Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Clause.

27. EXPENSES

27.1 Initial costs

The Company must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

27.2 Subsequent costs

The Company must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

27.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Increase Confirmation) executed after the date of this Agreement; and

27.2.2 any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by this Agreement.

27.3 Enforcement costs

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

28. AMENDMENTS AND WAIVERS

28.1 Procedure

28.1.1 Except as provided in this Clause 28, any term of the Finance Documents (other than the Fee Letters) may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.

28.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 28.1.1 above. Any such amendment or waiver is binding on all the Parties.

28.2 Exceptions

28.2.1 An amendment or waiver which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) Clause 2.3 (*Nature of a Finance Party's rights and obligations*);
- (c) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (d) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (e) an increase in, or an extension of, a Commitment or the Total Commitments;
- (f) a term of a Finance Document which expressly requires the consent of each Lender;
- (g) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (h) Clause 10.1 (*Mandatory prepayment – illegality*) or Clause 10.2 (*Mandatory prepayment – change of control*); or
- (i) this Clause,

may only be made with the consent of all the Lenders.

28.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party or an Ancillary Lender may only be made with the consent of that Administrative Party or Ancillary Lender.

3.3 Disenfranchisement of Defaulting Lenders

28.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitments.

28.3.2 For the purposes of this Clause 28.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

28.4 Replacement of a Defaulting Lender

28.4.1 The Company may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender.

to a Lender or other bank, financial institution, trust, fund or other entity (a "**Replacement Lender**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

28.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Company shall have no right to replace the Facility Agent;
- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Company to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 28.4.1 above;
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents; and
- (e) the Defaulting Lender shall only be obliged to transfer its rights and obligations pursuant to sub-clause 28.4.1 above once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the transfer to the Replacement Lender.

28.5 Excluded Commitments

If a Lender does not accept or reject a request for an amendment, waiver or consent within 15 Business Days of receipt of such request (or such longer period as the Company and the Facility Agent may agree), or abstains from accepting or rejecting a request for an amendment, waiver or consent, its Commitments shall not be included for the purpose of calculating the Total Commitments or participations under the Facility when ascertaining whether any relevant

percentage (including, for the avoidance of doubt, unanimity) of Total Commitments and/or participations has been obtained to approve that request.

28.6 **Change of currency**

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Company) determines is necessary to reflect the change.

28.7 **Waivers and remedies cumulative**

The rights of each Finance Party under the Finance Documents:

28.7.1 may be exercised as often as necessary;

28.7.2 are cumulative and not exclusive of its rights under the general law; and

28.7.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

29. **CHANGES TO THE PARTIES**

29.1 **Assignments and transfers by the Company**

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

29.2 **Assignments and transfers by Lenders**

29.2.1 A Lender (the **Existing Lender**) may, subject to the following provisions of this Clause 29, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the **New Lender**).

29.2.2 Unless the Company and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.

29.2.3 An Existing Lender must consult with the Company for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.

29.2.4 The Facility Agent is not obliged to accept an assignment or execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.

29.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:

- (a) the obligations are novated in accordance with the following provisions of this Clause 29; or

- (b) the New Lender confirms to the Facility Agent and the Company in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are assigned or transferred to the New Lender.

29.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £2,000.

29.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

29.3 Procedure for transfer by way of novations

29.3.1 In this Clause:

Transfer Date means, for a Transfer Certificate, the later of:

- (a) the proposed Transfer Date specified in that Transfer Certificate; and
- (b) the date on which the Facility Agent executes that Transfer Certificate.

29.3.2 A novation is effected if:

- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
- (b) the Facility Agent executes it.

Subject to sub-clause 29.2.4 of Clause 29.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

29.3.3 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

29.3.4 29.3.4 Subject to Clause 29.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
- (b) the Existing Lender will be released from those obligations and cease to have those rights.

29.4 Limitation of responsibility of Existing Lender

29.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or

- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

29.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and
- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

29.4.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
- (b) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.

29.5 Costs resulting from change of Lender or Facility Office

If:

29.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and

29.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Company would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 14 (*Tax gross-up and indemnities*) or Clause 15 (*Increased costs*), then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 29.5 shall not apply in relation to Clause 14 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Company making the payment has not complied with its obligations under sub-clause 14.1.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

29.6 Changes to the Reference Banks

29.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.

29.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the

Facility Agent (after consultation with the Company) shall designate by notice to the Company and the Lenders.

29.7 Copy of Transfer Certificate or Increase Confirmation to Company

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Company a copy of that Transfer Certificate or Increase Confirmation.

29.8 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 29, each Lender may without consulting with or obtaining consent from the Company, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by the Company or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

29.9 Pro rata interest settlement

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a "*pro rata basis*" to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 29.3 (*Procedure for transfer by way of novations*)) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

29.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date ("**Accrued Amounts**") and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and

29.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:

- (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable for the account of the Existing Lender; and

- (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 29.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

In this Clause 29.9, references to "Term" shall be construed to include a reference to any other period for accrual of fees.

30. CONFIDENTIALITY AND DISCLOSURE OF INFORMATION

30.1 Confidential Information

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 30.2 (*Disclosure of Confidential Information*) and Clause 30.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

30.2 Disclosure of Confidential Information

Any Finance Party may disclose:

30.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 30.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;

30.2.2 to any person:

- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent and, in each case, to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Company and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (c) appointed by any Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
- (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in sub-clause 30.2.2 (a) or (b) above;
- (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other

regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;

- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 29.8 (*Security over Lenders' rights*);
- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Company;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to sub-clause 30.2.2 (a), (b) and (c) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
 - (ii) in relation to sub-clause 30.2.2 (d) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
 - (iii) in relation to sub-clause 30.2.2 (e), (f) and (g) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;
- 30.2.3 to any person appointed by that Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 30.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Company and the relevant Finance Party;
- 30.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Company if the rating agency to whom the Confidential Information is to be given is informed of its confidential

nature and that some or all of such Confidential Information may be price-sensitive information.

3.3 Disclosure to numbering service providers

30.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Company the following information:

- (a) name of the Company;
- (b) country of domicile of the Company;
- (c) place of incorporation of the Company;
- (d) date of this Agreement;
- (e) the names of the Facility Agent and the Arranger;
- (f) date of each amendment and restatement of this Agreement;
- (g) amount of Total Commitments;
- (h) currencies of the Facility;
- (i) type of Facility;
- (j) ranking of Facility;
- (k) Final Maturity Date for the Facility;
- (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
- (m) such other information agreed between such Finance Party and the Company,

to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

30.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Company by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

30.3.3 The Company represents that none of the information set out in paragraphs (a) to (m) of sub-clause 30.3.1 above is, nor will at any time be, unpublished price-sensitive information.

30.3.4 The Facility Agent shall notify the Company and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Company; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Company by such numbering service provider.

31. CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS

31.1 Confidentiality and disclosure

31.1.1 The Facility Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by sub-clause 31.1.2, 31.1.3 and 31.1.4 below.

31.1.2 The Facility Agent may disclose:

- (a) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the Company pursuant to Clause 11.4 (*Notification of rates of interest*); and
- (b) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a Confidentiality Undertaking.

31.1.3 The Facility Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:

- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors and partners if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
- (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
- (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
- (d) any person with the consent of the relevant Lender or Reference Bank, as the case may be.

31.1.4 The Facility Agent's obligations in this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations are without prejudice to its obligations to make notifications under Clause 11.4 (*Notification of rates of interest*) provided that (other than pursuant to paragraph (a) of sub-clause 31.1.2 above) the Facility Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

31.2 Other obligations

31.2.1 The Facility Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Facility Agent, any Reference Bank Quotation for any unlawful purpose.

31.2.2 The Facility Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:

- (a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 31.1.3 above except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
- (b) upon becoming aware that any information has been disclosed in breach of this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

32. SET-OFF

32.1.1 A Finance Party may set off any matured obligation owed to it by the Company under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Company, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

32.1.2 Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

33. PRO RATA SHARING

33.1 Redistribution

33.1.1 If any amount owing by the Company under this Agreement to a Lender (the "**recovering Lender**") is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a "**recovery**"), then:

- (a) the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;

- (b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and
- (c) the recovering Lender must pay to the Facility Agent an amount equal to the excess (the "**redistribution**").

Sub-clause 33.1.1 above shall not apply to any amount received or recovered by an Ancillary Lender in respect of any cash cover provided for the benefit of that Ancillary Lender.

33.2 Effect of redistribution

33.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Company under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

33.2.2 When the Facility Agent makes a distribution under sub-clause 33.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

33.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 33.2.2 above, the Company will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

33.2.4 If:

- (a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Company; and
- (b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 33.2.2 above will operate in reverse to the extent of the reimbursement.

33.3 Exceptions

Notwithstanding any other term of this Clause 32.1.1, a recovering Lender need not pay a redistribution to the extent that:

33.3.1 it would not, after the payment, have a valid claim against the Company in the amount of the redistribution; or

33.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

- (a) the recovering Lender notified the Facility Agent of those proceedings; and
- (b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

33.4 Ancillary Lenders

33.4.1 This Clause 32 shall not apply to any receipt or recovery by a Lender in its capacity as an Ancillary Lender at any time prior to service of notice under Clause 22.15 (*Acceleration*).

33.4.2 Following service of notice under Clause 22.15 (*Acceleration*), this Clause 32 shall apply to all receipts or recoveries by Ancillary Lenders except to the extent that the receipt or recovery represents a reduction from the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount.

34. SEVERABILITY

34.1 If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

34.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

34.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

35. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

36. NOTICES

36.1 In writing

36.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:

(a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or

(b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.

36.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.

36.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

36.2 Contact details

36.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

36.2.2 The contact details of the Company for this purpose are:

Address: Avonbank, Feeder Road, Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@westernpower.co.uk
Attention: Julie Hunt

The contact details of the Facility Agent for this purpose are:

Address: 2 King Edward Street, London EC1A 1HQ
Fax number: 44 208313 2149
E-mail: emea.7115loansagency@bankofamerica.com
Attention: Loans Agency

36.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

36.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

36.3 Effectiveness

36.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

36.3.2 A communication given under sub-clause 36.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

36.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

36.4 The Company

All formal communication under the Finance Documents to or from the Company must be sent through the Facility Agent.

36.5 Communication when Facility Agent is Impaired Agent

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

37. LANGUAGE

37.1.1 Any notice given in connection with a Finance Document must be in English.

37.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

38. GOVERNING LAW

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

39. ENFORCEMENT

39.1 Jurisdiction

39.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

39.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Company waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

39.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)	£38,571,428.57	
Bank of America Merrill Lynch International Limited	£30,000,000.00	
Barclays Bank PLC	£38,571,428.57	
HSBC Bank plc	£38,571,428.58	
Lloyds Bank plc	£38,571,428.57	
Mizuho Bank, Ltd	£38,571,428.57	
The Royal Bank of Scotland plc	£38,571,428.57	
Royal Bank of Canada	£38,571,428.57	
Total	£300,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT DOCUMENTS

[SATISFIED]

**SCHEDULE 3
REQUESTS**

To: Bank of America Merrill Lynch International Limited as Facility Agent
From: Western Power Distribution (East Midlands) plc
Date: [•]

Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [•]
 - (b) Amount/currency: [•]
 - (c) Term: [•]
3. Our payment instructions are: [•]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.

We confirm that as at [*relevant testing date*] Consolidated EBITDA was [•] and Interest Payable was [•]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.

6. We confirm that as at [*relevant testing date*] Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
7. This Request is irrevocable.

By:

Western Power Distribution (East Midlands) plc

SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: **Bank of America Merrill Lynch International Limited** as Facility Agent

From: [THE EXISTING LENDER] (the **Existing Lender**) and [THE NEW LENDER] (the **New Lender**)

Date: [•]

Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.

1. The Existing Lender and the New Lender agree to the Existing Lender transferring by novation to the New Lender, and in accordance with Clause 29.3 (*Procedure for transfer by way of novation*), all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment(s) and participations in Loans under the Agreement as specified in the Schedule below.
2. The proposed Transfer Date is [•].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - (a) [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of

that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

[The New Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
 - ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
 - *** Insert jurisdiction of tax residence.
 - **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.
-

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

[NEW LENDER]

By:

By:

The Transfer Date is confirmed by the Facility Agent as [•].

[•]

By:

**SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE**

To: **Bank of America Merrill Lynch International Limited** as Facility Agent

From: **Western Power Distribution (East Midlands) plc**

Date: [•]

Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that as at [*relevant testing date*], Consolidated EBITDA was [•] and Interest Payable was [•], therefore the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
3. We confirm that as at [*relevant testing date*], Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:
[•].
5. We confirm that the following companies were Material Subsidiaries at [*relevant testing date*]:
[•].

[We confirm that no Default is outstanding as at [*relevant testing date*].]¹

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

By:

Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

SCHEDULE 6
FORM OF INCREASE CONFIRMATION

To: **Bank of America Merrill Lynch International Limited** as Facility Agent and **Western Power Distribution (East Midlands) plc** as Company

From: [the *Increase Lender*] (the "**Increase Lender**")

Dated: [•]

Western Power Distribution (East Midlands) plc - £300,000,000 Facilities Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
2. We refer to Clause 2.2 (*Increase*) of the Agreement.
3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the "**Relevant Commitment**") as if it was an Original Lender under the Agreement.
4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the "**Increase Date**") is [•].
5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule.
7. The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in Clause 2.2 (*Increase*).
8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - 8.1.1 [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - 8.1.2 [a Treaty Lender;]
 - 8.1.3 [not a Qualifying Lender].*
9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - 9.1.1 a company resident in the United Kingdom for United Kingdom tax purposes; or
 - 9.1.2 a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or

(2)a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

9.1.3a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

10.[The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

* Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.

** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).

*** Insert jurisdiction of tax residence.

**** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

11.This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.

12.This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.

13.This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [•].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 7
TIMETABLES**

	Loans in euro	Loans in sterling	Loans in other currencies
Facility Agent notifies the Company if a currency is approved as an Optional Currency in accordance with Clause 4.3 (<i>Conditions relating to Optional Currencies</i>)	-	-	U-4
Delivery of a duly completed Request (Clause 5.2 (<i>Completion of Requests</i>))	U-3 9:30 a.m.	U-1 9:30 a.m.	U-3 9:30 a.m.
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 (<i>Advance of Loan</i>) and notifies the Lenders of the Loan in accordance with Clause 5.4 (<i>Advance of Loan</i>)	U-3 Noon	U-1 Noon	U-3 Noon
Facility Agent receives a notification from a Lender under Clause 7.2.1 (<i>Revocation of a currency</i>)	Quotation Day	-	Quotation Day
Facility Agent gives notice in accordance with Clause 7.2 (<i>Revocation of a currency</i>)	Quotation Day 5:30 p.m.	-	Quotation Day 5:30 p.m.
LIBOR or EURIBOR is fixed	Quotation Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Quotation Day as of 11:00 a.m.	Quotation Day as of 11:00 a.m.

"U" = date of utilisation

"U-X" = X Business Days prior to date of utilisation.

SCHEDULE 8
FORM OF SUBORDINATION DEED

THIS SUBORDINATION DEED is entered into as a deed on [] and is made **BETWEEN:**

1. WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC (registered number 02366923) (the **Company**);
2. [SUBORDINATED CREDITOR] (the **Subordinated Creditor**); and
3. [●], as Facility Agent acting on behalf of the Lenders (the **Facility Agent**).

1. **INTERPRETATION**

1.1 **Definitions**

In this Deed:

Agreement means the £300,000,000 Multicurrency Revolving Facility Agreement dated 4 April 2011 as amended from time to time between, amongst others, the Company and Bank of America Merrill Lynch International Limited as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document,

provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in 0 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [●].

1.2 Construction

- 1.2.1 Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.
- 1.2.2 The principles of construction set out in the Agreement will have effect as if set out in this Deed.
- 1.2.3 Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

- 2.2.1 make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or
- 2.2.2 secure, in any manner, all or any part of the Subordinated Debt; or
- 2.2.3 defease, in any manner, all or any part of the Subordinated Debt; or
- 2.2.4 give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or
- 2.2.5 procure any other person to do any of the acts or take any of the actions referred to paragraphs 2.2.1 to 2.2.4 above.

2.3 Undertakings of the Subordinated Creditor

- 2.3.1 The Subordinated Creditor will not without the prior written consent of the Lenders:

- (a) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
- (b) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.

2.3.2 The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.

2.3.3 The Subordinated Creditor will not without the prior written consent of the Lenders:

- (a) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
- (b) initiate or support or take any steps with a view to, or which may lead to:
 - (i) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (ii) any voluntary arrangement or assignment for the benefit of creditors; or
 - (iii) any similar proceedings,

involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;

- (c) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
- (d) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).

2.3.4 If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.

2.3.5 The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any

bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 22.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- 2.4.1 the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- 2.4.2 any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the "**rights**") made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- 2.4.3 if the trust referred to in paragraph 2.4.2 above or paragraph 2.3.4 of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- 2.4.4 the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph 2.4.2 above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent's own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and
- 2.4.5 the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph 2.4.2 above or to do anything which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. SET-OFF

- 3.1.1 The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.
- 3.1.2 If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph 2.4.2 of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. NEW MONEY

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further

advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

PROTECTION OF SUBORDINATION

- 5.1.1 The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.
- 5.1.2 Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. MISCELLANEOUS

- 6.1.1 This Deed overrides anything in any Subordinated Finance Document to the contrary.
- 6.1.2 Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.
- 6.1.3 This Deed is a Finance Document.

7. ASSIGNMENT

- 7.1.1 The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.
- 7.1.2 The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. TRUSTS

- 8.1.1 The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.
- 8.1.2 The perpetuity period for each trust created by this Deed shall be 80 years.

9. TERMINATION

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. GOVERNING LAW

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. JURISDICTION

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: [●], as Facility Agent acting on behalf of the Lenders.

To: **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC**

From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the "**Acceding Subordinated Creditor**") in relation to the subordination deed (the "**Subordination Deed**") dated [•] between, among others, Western Power Distribution (East Midlands) plc) as Company, [●] as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC**)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED)
by [**ACCEDING SUBORDINATED CREDITOR**])
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED

)

by [AGENT]

)

acting by

)

Director

In the presence of:

Witness's Signature:

Name:

Address:

Facility Agent contact details:

Address:

Annex 2

Form of Certificate

To: [●] as Facility Agent

From: [Western Power Distribution (East Midlands) plc]

Date: [●]

Western Power Distribution (East Midlands) plc - £300,000,000 Revolving Facility Agreement dated 4 April 2011 (as amended and restated from time to time) (the "Agreement") and Subordination Deed dated [●] (as amended and restated from time to time) (the "Deed")

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make *[insert type of payment]* of *[insert amount and currency]* under *[insert description of relevant Subordinated Finance Document]* on *[insert date of payment]*.
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

By:

Director

By:

Director

SIGNATORIES

Company

EXECUTED as a DEED)
by WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC)
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Subordinated Creditor

EXECUTED as a DEED)
by [SUBORDINATED CREDITOR])
acting by)

Director

In the presence of:

Witness's Signature: _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED

)

y [●]

)

acting by

)

Director

In the presence of:

Witness's Signature:

Name:

Address:

Facility Agent contact details:

Address:

Bracken House
One Friday Street
London EC4M 9JA

SIGNATORIES

THE COMPANY

Signed by:)
for and on behalf of)
WESTERN POWER)
DISTRIBUTION (EAST MIDLANDS) PLC)

Address: Avonbank
Feeder Road
Bristol BS2 0TB
Fax: 44 (0) 1179 332 108

East Midlands - C onformed Copy

THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
)
)
ABBEY NATIONAL TREASURY SERVICES PLC (TRADING)
AS SANTANDER GLOBAL BANKING & MARKETS))

Address: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero

Fax: +44 (0)845 602 7837

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THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
for and on behalf of)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL
LIMITED

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

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THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
for and on behalf of)
)
BARCLAYS BANK PLC)

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

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THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
CREDIT SUISSE AG, LONDON BRANCH)
)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

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THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
HSBC BANK PLC)
)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

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THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
LLOYDS BANK PLC)
)

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

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THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
MIZUHO BANK, LTD.)
)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4301

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THE BOOKRUNNER AND MANDATED LEAD ARRANGERS

Signed by:)
)
THE ROYAL BANK OF SCOTLAND PLC)
)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

East Midlands - C onformed Copy

THE LEAD ARRANGER

Signed by:)
)
ROYAL BANK OF CANADA)

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar Nalappadam Veetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

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THE LENDERS

Signed by:)
)
)
)
ABBEY NATIONAL TREASURY SERVICES PLC (TRADING)
AS SANTANDER GLOBAL BANKING & MARKETS))
)
)

Address: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero

Fax: +44 (0)845 602 7837

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THE LENDERS

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED

Address: King Edward Street
London EC1A 1HQ
Fax: +44 (0)20 7995 2886

East Midlands - C onformed Copy

THE LENDERS

Signed by:

BARCLAYS BANK PLC

)
)
)
)

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

East Midlands - C onformed Copy

THE LENDERS

Signed by:)
)
CREDIT SUISSE AG, LONDON BRANCH)

Address: One Cabot Square
London E14 4QJ
Fax: +44 (0)20 888 8398

East Midlands - C onformed Copy

THE LENDERS

Signed by:

HSBC BANK PLC

)
)
)

Address:

Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER

Fax:

+44 (0)8455 877941

East Midlands - C onformed Copy

THE LENDERS

Signed by:)
)
LLOYDS BANK PLC)

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

East Midlands - C onformed Copy



THE LENDERS

Signed by:)
)
MIZUHO BANK, LTD.)
)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4301

East Midlands - C onformed Copy

THE LENDERS

Signed by:)
)
ROYAL BANK OF CANADA)

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/ Maggie Weiyan Tang/ Ahmed Awad/ Vinodkumar Nalappadam Veetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

East Midlands - C onformed Copy

THE LENDERS

Signed by:

THE ROYAL BANK OF SCOTLAND PLC

)
)
)
)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0)20 7085 8762

East Midlands - C onformed Copy

THE ISSUING BANK

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

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THE FACILITY AGENT

Signed by:)
)
BANK OF AMERICA MERRILL LYNCH INTERNATIONAL)
LIMITED

Address: King Edward Street
London, EC1A 1HQ
Fax: +44 (0)20 7995 2886

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THE JOINT COORDINATORS

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4053

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THE JOINT COORDINATORS

Signed by
for and on behalf of

)
)
)

HSBC BANK PLC

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

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**LIFFORD
CHANCE**

CLIFFORD CHANCE LLP

CONFORMED COPY

**WESTERN POWER DISTRIBUTION PLC
AS THE BORROWER**

**HSBC BANK PLC
AND
MIZUHO BANK, LTD.
AS MANDATED LEAD ARRANGERS**

AND

**MIZUHO BANK, LTD.
AS FACILITY AGENT**

£130,000,000 TERM FACILITY AGREEMENT

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THIS AGREEMENT is dated 20 March 2018

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION PLC** (registered number 09223384) (the "**Borrower**");
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as mandated lead arrangers (whether acting individually or together the "**Arranger**");
- (3) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the "**Original Lenders**"); and
- (4) **MIZUHO BANK, LTD.** as facility agent (the "**Facility Agent**").

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

"**Acceptable Bank**" means a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody's Investors Service Limited or a comparable rating from an internationally recognised credit rating agency.

"**Acceptable Jurisdiction**" means:

- (a) the United States of America;
- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of AA or higher by Standard & Poor's Rating Services or Aa2 or higher from Moody's Investors Service Limited or AA or higher from Fitch Ratings Ltd.

"**Act**" means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

"**Administrative Party**" means the Arranger, or the Facility Agent.

"**Affiliate**" means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"**Applicable Accounting Principles**" means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

"**Assignment Agreement**" means an agreement substantially in the form set out in Schedule 5 (*Form of Assignment Agreement*) or any other form agreed between the relevant assignor and assignee.

"**Authority**" means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

"**Availability Period**" means, in respect of any Lender's Available Commitment, the period from and including the date of this Agreement to and including the date falling two weeks after the date of this Agreement.

"**Available Commitment**" means a Lender's Commitment minus:

- (a) the amount of its participation in any outstanding Loans; and
- (b) in relation to any proposed Loans, the amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date.

"**Available Facility**" means the aggregate for the time being of each Lender's Available Commitment.

"**Balancing and Settlement Code**" means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

"**Balancing and Settlement Code Framework Agreement**" means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which a Distribution Company is a party and by which the Balancing and Settlement Code is made binding upon that Distribution Company.

"**Basel III**" means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
- (b) the rules for global systemically important banks contained in "Global systemically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on

Banking Supervision in November 2011, as amended, supplemented or restated; and

- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III".

"Break Costs" means the amount (if any) determined by the relevant Lender by which:

- (a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or Unpaid Sum to the last day of the applicable Term for that Loan or Unpaid Sum if the principal or Unpaid Sum received had been paid on the last day of that Term;

exceeds:

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank for a period starting on the Business Day following receipt or recovery and ending on the last day of the applicable Term.

"Business Day" means a day (other than a Saturday or a Sunday) on which commercial banks are open for general business in London.

"Code" means the US Internal Revenue Code of 1986.

"Commitment" means:

- (a) in relation to an Original Lender, the amount set opposite its name under the heading "Commitment" in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and
- (b) in relation to any other Lender, the amount of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

"Compliance Certificate" means a certificate substantially in the form of Schedule 6 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

"Confidential Information" means all information relating to each of the Borrower and its Subsidiaries, PPL Corporation and any of its Subsidiaries which directly or indirectly holds shares in the Borrower and the directors, officers and employees of any of them (the **"Extended Group"**), the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Extended Group or any of its advisers; or

- (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Extended Group or any of its advisers,

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes:

- (i) information that:
 - (A) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 28 (*Confidentiality and disclosure of information*); or
 - (B) is identified in writing at the time of delivery as non-confidential by any member of the Extended Group or any of its advisers; or
 - (C) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality; and
- (ii) any Funding Rate.

"Confidentiality Undertaking" means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Borrower and the Facility Agent.

"Contribution Notice" means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

"CRD IV" means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

"CTA 2009" means the Corporation Tax Act 2009.

"CTA 2010" means the Corporation Tax Act 2010.

"Debt Purchase Transaction" means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any Commitment or amount outstanding under this Agreement.

"Default" means:

- (a) an Event of Default; or
- (b) an event or circumstance which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"Defaulting Lender" means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within five Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

"Disruption Event" means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:

- (i) from performing its payment obligations under the Finance Documents; or
- (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

"Distribution Certificate" means a distribution certificate substantially in the form of Schedule 11 (*Form of Distribution Certificate*).

"Distribution Companies" means Western Power Distribution (South West) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (West Midlands) plc and Western Power Distribution (East Midlands) plc and any other distribution company which is licensed by OFGEM or any successor regulatory body as a distribution network operator and owned (whether directly or indirectly) by the Borrower from time to time.

"Drawdown Date" means each date on which a Loan is made.

"Eligible Institution" means any Lender or other bank, financial institution, trust, fund or other entity selected by the Borrower and which, in each case, is not a member of the Group.

"Environment" means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

"Environmental Claim" means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

"Environmental Law" means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

"Event of Default" means an event or circumstance specified as such in this Agreement.

"**Facility**" means the term facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

"**Facility Office**" means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days' notice,

as the office(s) through which it will perform its obligations under this Agreement.

"**FATCA**" means:

- (a) sections 1471 to 1474 of the Code or any associated regulations;
- (b) any treaty, law or regulation of any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of any law or regulation referred to in paragraph (a) above; or
- (c) any agreement pursuant to the implementation of any treaty, law or regulation referred to in paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"**FATCA Application Date**" means:

- (a) in relation to a "withholdable payment" described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a "withholdable payment" described in section 1473(1)(A)(ii) of the Code (which relates to "gross proceeds" from the disposition of property of a type that can produce interest from sources within the US), 1 January 2019; or
- (c) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2019,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

"**FATCA Deduction**" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"**FATCA Exempt Party**" means a Party that is entitled to receive payments free from any FATCA Deduction.

"**Fee Letter**" means any letter entered into by reference to the Facility between one or more Administrative Parties and the Borrower setting out the amount of certain fees referred to in the Agreement.

"Final Maturity Date" means the date falling nine months after the date of this Agreement.

"Finance Document" means:

- (a) this Agreement;
- (b) a Fee Letter;
- (c) a Transfer Certificate;
- (d) an Assignment Agreement;
- (e) a Request; or
- (f) any other document designated as such by the Facility Agent and the Borrower.

"Finance Party" means a Lender or an Administrative Party.

"Financial Indebtedness" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) the amount of any liability in respect of any finance or capital lease which would, in accordance with the Applicable Accounting Principles, be treated as a balance sheet liability;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value (or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount) shall be taken into account);
- (i) any other transaction (including any forward sale or purchase agreement) of a type not referred to in any other paragraph of this definition which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or

- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

"Financial Support Direction" means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

"Funding Rate" means any individual rate notified by a Lender to the Facility Agent pursuant to paragraph (b) of sub-clause 10.3.1 of Clause 10.3 (*Cost of funds*).

"Group" means the Borrower and its Subsidiaries.

"Holding Company" means in relation to a person, any other person in respect of which it is a Subsidiary.

"Impaired Agent" means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of "Defaulting Lender"; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within five Business Days of its due date; or
- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

"Increase Confirmation" means a confirmation substantially in the form set out in Schedule 7 (*Form of Increase Confirmation*).

"Increase Lender" has the meaning given to that term in Clause 2.2 (*Increase*).

"Increased Cost" means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Finance Party's (or its Affiliate's) overall capital; or

- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

"Insolvency Event" in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets (other than, for so long as it is required by law or regulation not to be publicly disclosed, any such appointment which is to be made, or is made, by a person or entity described in paragraph (d) above);
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured

party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;

- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

"Interpolated Screen Rate" means, in relation to any Loan, the rate rounded to the same number of decimal places as the two relevant Screen Rates which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and
- (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,

each as of the Specified Time for Sterling.

"ITA" means the Income Tax Act 2007.

"Legal Reservations" means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Borrower is incorporated; and
- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent*).

"Lender" means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 27 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

"LIBOR" means, in relation to any Loan:

- (a) the applicable Screen Rate as of the Specified Time for Sterling and for a period equal in length to the Term of that Loan; or
- (b) as otherwise determined pursuant to Clause 10.1 (*Unavailability of Screen Rates*),

and if, in each case, that rate is less than zero, LIBOR shall be deemed to be zero.

"Licence" means:

- (a) each electricity distribution licence made and treated as granted to a Distribution Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 (or any equivalent legislation which supersedes the Utilities Act 2000) which permit a Distribution Company to distribute electricity in the area it is certified to operate in.

"LMA" means the Loan Market Association.

"Loan" means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

"Majority Lenders" means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate 66⅔ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate 66⅔ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated 66⅔ per cent. or more of the Total Commitments immediately before the reduction.

"Margin" means, provided that:

- (a) at least one of Moody's Investors Service Limited ("**Moody's**") and Standard & Poor's Ratings Services ("**Standard & Poor's**") has provided a rating (being an issuer rating with respect to the Borrower from Moody's and a long-term corporate credit rating with respect to the Borrower from Standard & Poor's) (the "**Ratings**"); and
- (b) no Event of Default is outstanding,

the rate set out in the table below:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than or equal to Ba1	Less than or equal to BB+	2.00%
Baa3	BBB-	1.60%
Baa2	BBB	1.30%
Baa1	BBB+	1.10%
More than or equal to A3	More than or equal to A-	0.90%

If the current Moody's and Standard & Poor's Ratings imply different Margin rates, the Margin shall be the average of the two Margin rates implied. If only one of Moody's and Standard & Poor's provides a Rating, that Rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a Rating, or if an Event of Default is outstanding, the applicable Margin shall be 2.00% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's Rating is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Borrower or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

The Borrower shall notify the Facility Agent of any change to the Moody's or Standard & Poor's Rating pursuant to sub-clause 16.4.8.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Borrower to the Facility Agent (acting reasonably)) or waived.

"**Material Adverse Effect**" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Borrower to perform its payment obligations under the Finance Documents or its obligations under Clauses 17.3 (*Interest Cover*) or 17.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

"**Measurement Date**" means the last day of a Measurement Period, being 31 March or 30 September.

"**Measurement Period**" means each period of twelve months ending on 31 March or 30 September.

"**New Lender**" has the meaning given to that term in sub-clause 27.2.1 of Clause 27.2 (*Assignments and transfers by Lenders*).

"**OFGEM**" means the Office of Gas and Electricity Markets.

"Original Financial Statements" means the audited consolidated financial statements of the Borrower and each Distribution Company for the year ended 31 March 2017.

"Participating Member State" means any member state of the European Union that has the euro as its lawful currency in accordance with the legislation of the European Union relating to Economic and Monetary Union.

"Party" means a party to this Agreement.

"Pensions Regulator" means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

"Permitted Acquisition" means the acquisition by any member of the Group of an entity:

- (a) which carries out a Permitted Business;
- (b) which is incorporated or established in England or the European Union; and
- (c) in respect of which the Borrower has delivered to the Facility Agent, not later than three Business Days before the relevant member of the Group legally commits to make such acquisition, a certificate signed by two directors of the Borrower to which is attached a copy of the latest audited accounts (or if not available, management accounts) of the target entity giving calculations showing in reasonable detail that the Borrower would have remained in compliance with its obligations under Clause 17 (*Financial Covenants*) if the covenant tests had been recalculated for the most recently ended Measurement Period consolidating the financial statements of the target entity (consolidated if it has Subsidiaries) with the financial statements of the Group for such period on a pro forma basis and as if the consideration (including associated costs and expenses) for the proposed acquisition had been paid at the start of that Measurement Period.

"Permitted Business" means:

- (a) a business that:
 - (i) possesses characteristics similar to the regulated business of a distribution network operator, as carried out by any of the Distribution Companies (a **"DNO Business"**);
 - (ii) provides facilities for and connected with a DNO Business;
 - (iii) is complementary or ancillary to the operation of a DNO Business or any other business already conducted by an entity within the Group;
 - (iv) provides services to any member of the Group which are currently provided by third parties; or
- (b) any other business approved or consented to by the Facility Agent.

"Person" has the meaning given to that term in Clause 15.20 (*Sanctions*).

"**PPL Corporation**" means PPL Corporation, a company incorporated in Pennsylvania, US, whose head office is at 2 N 9th Street, Allentown, PA18101, Pennsylvania, US, and whose registered number is 2570936.

"**PPL Group**" means PPL Corporation and any of its Subsidiaries.

"**Pro Rata Share**" means:

- (a) for the purpose of determining a Lender's share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

"**PUHCA**" means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

"**Qualifying Lender**" has the meaning given to it in Clause 11 (*Tax gross-up and Indemnities*).

"**Rate Fixing Day**" means, in relation to any period for which an interest rate is to be determined, the first day of that period, unless market practice differs in the Relevant Market, in which case the Rate Fixing Day will be determined by the Facility Agent in accordance with market practice in the Relevant Market (and if quotations would normally be given on more than one day, the Rate Fixing Day will be the last of those days).

"**Related Fund**" in relation to a fund (the "**first fund**"), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

"**Relevant Market**" means the London interbank market.

"**Repeating Representations**" means the representations which are deemed to be repeated under this Agreement.

"**Representative**" means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

"**Request**" means a request for a Loan, substantially in the relevant form set out in Part I of Schedule 3 (*Requests*).

"**Sanctions**" has the meaning given to that term in Clause 15.20 (*Sanctions*).

"**Screen Rate**" means the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for Sterling and for the relevant period displayed on page LIBOR01 of the Thomson Reuters screen (or any replacement Thomson Reuters page which displays that rate) or on the appropriate page of such other information service which publishes that rate from time to time in place of Thomson Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Borrower.

"**Secretary of State**" means the Secretary of State for Business, Energy and Industrial Strategy.

"**Security Interest**" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

"**Selection Notice**" means a notice substantially in the form set out in Part II of Schedule 3 (*Requests*) given in accordance with Clause 9 (*Terms*)

"**Specified Time**" means a day or time determined in accordance with Schedule 8 (*Timetable*).

"**Subordination Deed**" means a document substantially in the form set out in Schedule 10 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

"**Subsidiary**" means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

"**Tax Credit**" has the meaning given to it in Clause 11 (*Tax gross-up and Indemnities*).

"**Tax Deduction**" has the meaning given to it in Clause 11 (*Tax gross-up and Indemnities*).

"**Tax Payment**" means either the increase in a payment made by the Borrower to a Finance Party under Clause 11.2 (*Tax gross-up*) or a payment under Clause 11.3 (*Tax indemnity*).

"**Term**" means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

"**Total Commitments**" means the aggregate of the Commitments, being £130,000,000 at the date of this Agreement.

"**Transfer Certificate**" means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Borrower.

"**Transfer Date**" means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Assignment Agreement or Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Assignment Agreement or Transfer Certificate.

"**Treaty Lender**" has the meaning given to it in Clause 11 (*Tax gross-up and Indemnities*).

"**U.K.**" means the United Kingdom.

"**Unpaid Sum**" means any sum due and payable but unpaid by the Borrower under the Finance Documents.

"**US**" means the United States of America.

"**VAT**" means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2 Construction

1.2.1 The following definitions have the meanings given to them in Clause 17 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Regulatory Asset Value; and
- (f) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
 - (b) **assets** includes present and future properties, revenues and rights of every description;
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- (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
 - (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
 - (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
 - (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
 - (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
 - (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
 - (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
 - (j) a currency is a reference to the lawful currency for the time being of the relevant country;
 - (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
 - (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
 - (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
 - (n) a person includes its successors in title, permitted assigns and permitted transferees;
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- (o) a Finance Document or another document is a reference to that Finance Document or other document as amended;
- (p) a "group of Lenders" includes all the Lenders; and
- (q) a time of day is a reference to London time.

1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:

- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
- (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
- (c) notwithstanding paragraph (a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.

The above rules will only apply to the last month of any period.

1.2.4 Unless the contrary intention appears:

- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
- (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
- (c) any obligation of the Borrower under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Borrower is or may be outstanding under the Finance Documents.

1.2.5 The headings in this Agreement do not affect its interpretation.

1.2.6 The determination of the extent to which a rate is "**for a period equal in length**" to a Term shall disregard any inconsistency arising from the last day of that Term being determined pursuant to the terms of this Agreement.

1.3 Third Party Rights

1.3.1 Unless expressly provided to the contrary in a Finance Document, a person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 (the "**Third Parties Act**") to enforce or to enjoy the benefit of any term of this Agreement.

1.3.2 Notwithstanding any term of any Finance Document, the consent of any person who is not a Party is not required to rescind or vary this Agreement at any time.

1.4 Currency symbols and definitions

"£", "GBP" and "Sterling" denote the lawful currency of the United Kingdom.

2. THE FACILITY

2.1 The Facility

Subject to the terms of this Agreement, the Lenders make available to the Borrower a Sterling term facility in an aggregate amount which is equal to the Total Commitments.

2.2 Increase

2.2.1 The Borrower may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 7.6.3 of Clause 7.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with Clause 7.1 (*Mandatory prepayment – illegality*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in Sterling of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Eligible Institutions (each an "**Increase Lender**") which is acceptable to the Facility Agent (acting reasonably) each of which confirms in writing (whether in the relevant Increase Confirmation or otherwise) its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender in respect of those Commitments;
- (d) the Borrower and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Borrower and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender in respect of that part of the increased Commitments which it is to assume;
- (e) each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender in respect of that part of the increased Commitments which it is to assume;

- (f) the Commitments of the other Lenders shall continue in full force and effect; and
 - (g) any increase in the Total Commitments shall take effect on the date specified by the Borrower in the notice referred to above or any later date on which the Facility Agent executes an otherwise duly completed Increase Confirmation delivered to it by the relevant Increase Lender.
- 2.2.2 The Agent shall, subject to sub-clause 2.2.3 below, as soon as reasonably practicable after receipt by it of a duly completed Increase Confirmation appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Increase Confirmation.
- 2.2.3 The Agent shall only be obliged to execute an Increase Confirmation delivered to it by an Increase Lender once it is satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender.
- 2.2.4 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective in accordance with this Agreement and that it is bound by that decision to the same extent as it would have been had it been an Original Lender.
- 2.2.5 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Borrower shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Borrower shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.6 The Borrower may pay to the Increase Lender a fee in the amount and at the times agreed between the Borrower and the Increase Lender in a letter between the Borrower and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.7 Neither the Facility Agent nor any Lender shall have any obligation to find an Increase Lender and in no event shall any Lender whose Commitment is replaced by an Increase Lender be required to pay or surrender any of the fees received by such Lender pursuant to the Finance Documents.
- 2.2.8 Clause 27.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
- (a) an "Existing Lender" were references to all the Lenders immediately prior to the relevant increase;
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- (b) the "New Lender" were references to that "Increase Lender"; and
- (c) a "re-transfer" and "re-assignment" were references to respectively a "**transfer**" and "**assignment**".

2.3 **Finance Party's rights and obligations**

- 2.3.1 The obligations of each Finance Party under the Finance Documents are several. Failure by a Finance Party to perform its obligations under the Finance Documents does not affect the obligations of any other Party under the Finance Documents. No Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents.
- 2.3.2 The rights of each Finance Party under or in connection with the Finance Documents are separate and independent rights and any debt arising under the Finance Documents to a Finance Party from the Borrower is a separate and independent debt in respect of which a Finance Party shall be entitled to enforce its rights in accordance with sub-clause 2.3.3 below. The rights of each Finance Party include any debt owing to that Finance Party under the Finance Documents and, for the avoidance of doubt, any part of a Loan or other amount owed by the Borrower which relates to a Finance Party's participation in the Facility or its role under a Finance Document (including any such amount payable to the Facility Agent on its behalf) is a debt owing to that Finance Party by the Borrower.
- 2.3.3 A Finance Party may, except as specifically provided in the Finance Documents, separately enforce its rights under or in connection with the Finance Documents.

3. **PURPOSE**

3.1 **Purpose**

The Borrower shall apply all amounts borrowed by it under the Facility towards its general corporate purposes.

3.2 **No obligation to monitor**

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. **CONDITIONS PRECEDENT**

4.1 **Conditions precedent documents**

- 4.1.1 A Request may not be given until the Facility Agent has notified the Borrower and the Lenders that it has received (or, subject to all Lender consent, waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Borrower and the Lenders upon being so satisfied.
- 4.1.2 Other than to the extent that the Majority Lenders notify the Facility Agent in writing to the contrary before the Facility Agent gives the notification described

in paragraph 4.1.1 above, the Lenders authorise (but do not require) the Facility Agent to give that notification. The Facility Agent shall not be liable for any damages, costs or losses whatsoever as a result of giving any such notification.

4.2 Further conditions precedent

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

4.2.1 the Repeating Representations are correct in all material respects; and

4.2.2 no Default is outstanding or would result from the Loan.

4.3 Maximum number

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than two Loans outstanding.

5. UTILISATION

5.1 Giving of Requests

5.1.1 The Borrower may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.

5.1.2 Each Request is irrevocable.

5.2 Completion of Requests

A Request for a Loan will not be regarded as having been duly completed unless:

5.2.1 the Drawdown Date is a Business Day falling within the Availability Period;

5.2.2 the currency and amount of the proposed Loan comply with Clause 5.3 (*Currency and amount*); and

5.2.3 the proposed Term complies with this Agreement.

Only one Loan may be requested in a Request.

5.3 Currency and amount

5.3.1 The currency specified in a Request must be Sterling.

5.3.2 The amount of the proposed Loan must be a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility.

5.4 Advance of Loan

5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.

- 5.4.2 The amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.
- 5.4.3 No Lender is obliged to participate in a Loan if as a result:
- (a) its share in the aggregate amount of the Loans would exceed its Commitment; or
 - (b) the aggregate amount of the Loans would exceed the Total Commitments.
- 5.4.4 If the conditions set out in this Agreement have been met, each Lender must make its share in the Loan available to the Facility Agent for the Borrower by no later than 2.00 pm on the Drawdown Date.
- 5.4.5 The Facility Agent shall notify each Lender of the amount of each Loan and the amount of its participation in that Loan in each case by the Specified Time.

6. REPAYMENT

6.1 Repayment of Loans

- 6.1.1 The Borrower must repay each Loan in full on the Final Maturity Date.
- 6.1.2 The Borrower may not re-borrow any part of the Facility which is repaid.

7. PREPAYMENT AND CANCELLATION

7.1 Mandatory prepayment - illegality

- 7.1.1 A Lender must notify the Borrower promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan or it becomes unlawful for any Affiliate of a Lender for that Lender to do so.
- 7.1.2 After notification under sub-clause 7.1.1 above:
- (a) the Borrower must repay or prepay the share of that Lender in each Loan made to it on the date specified in sub-clause 7.1.3 below; and
 - (b) the Available Commitment of that Lender will be immediately cancelled.
- 7.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:
- (a) the Business Day following receipt by the Borrower of notice from the Lender under sub-clause 7.1.1 above; or
 - (b) if later, the latest date allowed by the relevant law,
- and on such date that Lender's corresponding Commitment shall be cancelled in the amount of the participation repaid.

7.2 Mandatory prepayment - change of control

If, except to the extent of a group reorganisation where the Borrower continues to be controlled directly or indirectly by PPL Corporation, the Borrower becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Borrower (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 1122 of the CTA 2010) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

- 7.2.1 within five days of such date, the Borrower shall give notice of such change of control to the Facility Agent;
- 7.2.2 the Lenders and the Borrower shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;
- 7.2.3 if no such agreement is reached within the said period of 45 days then:
 - (a) any Lender may on 10 days' notice to the Facility Agent and to the Borrower require the repayment of its share in each Loan and cancel its Commitment; and
 - (b) the Majority Lenders may on 10 days' notice to the Borrower require repayment in full of all outstanding Loans and cancel the Total Commitments; and
- 7.2.4 a Lender shall not be obliged to fund any further loans under the Facility during the negotiation period set out in sub-clause 7.2.2, and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 7.2.3.

7.3 Voluntary prepayment

- 7.3.1 The Borrower may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.
- 7.3.2 A prepayment of part of a Loan must be by an amount that reduces the amount of the Loan by a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 7.3.3 Any prepayment of a Loan pursuant to this Clause 7.3 shall be applied *pro rata* to each Lender's participation in that Loan.

7.4 Automatic cancellation

The Available Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

7.5 Voluntary cancellation

- 7.5.1 The Borrower may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.
- 7.5.2 Partial cancellation of the Total Commitments must be by an amount that reduces the amount of the Loan by a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 7.5.3 Any cancellation in part shall be applied against the Commitment of each Lender *pro rata*.

7.6 Involuntary prepayment and cancellation

- 7.6.1 If the Borrower is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Borrower may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.
- 7.6.2 After notification under sub-clause 7.6.1 above:
 - (a) the Available Commitments of that Lender will be immediately cancelled; and
 - (b) the Borrower shall repay or prepay that Lender's participation in each Loan made to it on the last day of the current Term for that Loan or, if earlier, the date specified by the Borrower in its notification and such Lender's Commitment shall be cancelled on the date of such repayment or prepayment.
- 7.6.3 If any Lender becomes a Defaulting Lender, the Borrower may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent five Business Days' notice of cancellation of the Available Commitment of that Lender.
- 7.6.4 On the notice referred to in sub-clause 7.6.3 above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
- 7.6.5 The Facility Agent shall as soon as practicable after receipt of a notice referred to in sub-clause 7.6.3 above, notify all the Lenders.

7.7 No re-borrowing of Loans

The Borrower may not re-borrow any part of the Facility which is prepaid.

7.8 Miscellaneous provisions

- 7.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.

- 7.8.2 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- 7.8.3 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.
- 7.8.4 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- 7.8.5 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.
- 7.8.6 If all or part of any Lender's participation in a Loan is repaid or prepaid, an amount of that Lender's Commitment (equal to the amount of the participation which is repaid or prepaid) will be deemed to be cancelled on the date of repayment or prepayment.

8. INTEREST

8.1 Calculation of interest

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- 8.1.1 Margin; and
- 8.1.2 LIBOR.

8.2 Payment of interest

Except where it is provided to the contrary in this Agreement, the Borrower must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

8.3 Interest on overdue amounts

- 8.3.1 If the Borrower fails to pay any amount payable by it under the Finance Documents on its due date, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.
- 8.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan. For this purpose, the Facility Agent may (acting reasonably):
 - (a) select successive Terms of any duration of up to three months; and
 - (b) determine the appropriate Rate Fixing Day for that Term.

8.3.3 Notwithstanding sub-clause 8.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 8.3.2 above.

8.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

8.4 Notification of rates of interest

8.4.1 The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

8.4.2 The Facility Agent shall promptly notify the Borrower of each Funding Rate relating to a Loan.

9. TERMS

9.1 Selection

9.1.1 The Borrower may select the Term for a Loan in the relevant Request or (if the Loan has already been borrowed) in a Selection Notice.

9.1.2 Each Selection Notice for a Loan is irrevocable and must be delivered to the Facility Agent by the Borrower not later than the Specified Time.

9.1.3 If the Borrower fails to deliver a Selection Notice to the Facility Agent in accordance with sub-clause 9.1.2 above, the relevant Term will be one month.

9.1.4 Subject to this Clause, the Borrower may select a Term for each Loan of one, three or six months or any other period agreed between the Borrower and the Lenders in relation to the relevant Loan.

9.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan or (if already made) on the last day of its preceding Term.

9.2 No overrunning the Final Maturity Date

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on such Final Maturity Date.

9.3 Other adjustments

- 9.3.1 The Facility Agent and the Borrower may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.
- 9.3.2 Subject to sub-clause 9.3.3 below, if two or more Terms in respect of Loans end on the same date, those Loans will, unless the Borrower specifies to the contrary in the Selection Notice for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.
- 9.3.3 Subject to Clause 4.3 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Borrower requests in a Selection Notice that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the amounts specified in that Selection Notice, having an aggregate amount equal to the amount of the Loan immediately before its division.

9.4 Notification

The Facility Agent must notify the Borrower and the Lenders of the duration of each Term promptly after ascertaining its duration.

10. CHANGES TO THE CALCULATION OF INTEREST

10.1 Unavailability of Screen Rate

- 10.1.1 *Interpolated Screen Rate*: If no Screen Rate is available for LIBOR for the Term of a Loan, the applicable LIBOR shall be the Interpolated Screen Rate for a period equal in length to the Term of that Loan.

Cost of funds: If no Screen Rate is available for LIBOR for Sterling or for the Term of a Loan and it is not possible to calculate the Interpolated Screen Rate, there shall be no LIBOR for that Loan and Clause 10.3 (*Cost of funds*) shall apply to that Loan for that Term.

10.2 Market disruption

If before close of business in London on the Rate Fixing Day for the relevant Term the Facility Agent receives notifications from a Lender or Lenders (whose participations in a Loan exceed 50 per cent. of that Loan) that the cost to it of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR then Clause 10.3 (*Cost of funds*) shall apply to that Loan for the relevant Term.

10.3 Cost of funds

- 10.3.1 If this Clause 10.3 applies, the rate of interest on each Lender's share of the relevant Loan for the relevant Term shall be the percentage rate per annum which is the sum of:
- (a) the Margin; and
 - (b) the rate notified to the Facility Agent by that Lender as soon as practicable and in any event before interest is due to be paid in respect of that Term,

to be that which expresses as a percentage rate per annum the cost to the relevant Lender of funding its participation in that Loan from whatever source it may reasonably select.

10.3.2 If this Clause 10.3 applies and the Facility Agent or the Borrower so requires, the Facility Agent and the Borrower shall enter into negotiations (for a period of not more than thirty days) with a view to agreeing a substitute basis for determining the rate of interest.

10.3.3 Any alternative basis agreed pursuant to sub-clause 10.3.2 above shall, with the prior consent of all the Lenders and the Borrower, be binding on all Parties.

10.3.4 If this Clause 10.30 applies pursuant to Clause 10.2 (*Market disruption*) and:

(a) a Lender's Funding Rate is less than LIBOR; or

(b) a Lender does not supply a quotation by the time specified in paragraph (b) of sub-clause 10.3.1 above,

the cost to that Lender of funding its participation in that Loan for that Term shall be deemed, for the purposes of paragraph (b) of sub-clause 10.3.1 above, to be LIBOR.

10.4 **Notification to Borrower**

If Clause 10.3 (*Cost of funds*) applies the Facility Agent shall, as soon as is practicable, notify the Borrower.

10.5 **Break Costs**

10.5.1 The Borrower shall, within three Business Days of demand by a Finance Party, pay to that Finance Party its Break Costs attributable to all or any part of a Loan or Unpaid Sum being paid by the Borrower on a day other than the last day of a Term for that Loan or Unpaid Sum.

10.5.2 Each Lender shall, as soon as reasonably practicable after a demand by the Facility Agent, provide a certificate confirming the amount of its Break Costs for any Term in which they accrue.

11. **TAX GROSS-UP AND INDEMNITIES**

11.1 **Definitions**

11.1.1 In this Agreement:

"**Qualifying Lender**" means:

(a) a Lender which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:

(i) a Lender:

- (A) which is a bank (as defined for the purpose of section 879 of the ITA) making an advance under a Finance Document and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance or would be within such charge as respects such payment apart from section 18A of the CTA 2009; or
 - (B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of the ITA) at the time that that advance was made, and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or
- (ii) a Lender which is:
- (A) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (B) a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
 - (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company; or
- (iii) a Treaty Lender; or
- (b) a Lender which is a building society (as defined for the purpose of section 880 of the ITA) making an advance under a Finance Document.

"Tax Confirmation" means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.

"Tax Credit" means a credit against, relief or remission for, or repayment of any Tax.

"Tax Deduction" means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

"Treaty Lender" means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
 - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Borrower and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

"Treaty State" means a jurisdiction having a double taxation agreement (a **"Treaty"**) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

"UK Non-Bank Lender" means a Lender which is not an Original Lender and which gives a Tax Confirmation in the documentation which it executes on becoming a Party as a Lender.

11.1.2 Unless a contrary indication appears, in this Clause 11 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

11.2 Tax gross-up

11.2.1 The Borrower shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

11.2.2 The Borrower shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Borrower.

11.2.3 If a Tax Deduction is required by law to be made by the Borrower, the amount of the payment due from the Borrower shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

11.2.4 A payment shall not be increased under sub-clause 11.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or
- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a "**Direction**") under section 931 of the ITA which relates to the payment and that Lender has received from the Borrower a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:

- (i) the relevant Lender has not given a Tax Confirmation to the Borrower; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Borrower on the basis that the Tax Confirmation would have enabled the Borrower to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or
 - (d) the relevant Lender is a Treaty Lender and the Borrower making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 11.2.7 below.
- 11.2.5 If the Borrower is required to make a Tax Deduction, the Borrower shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- 11.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Borrower making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.
- 11.2.7
- (a) Subject to paragraph (b) below, a Treaty Lender and the Borrower which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Borrower to obtain authorisation to make that payment without a Tax Deduction.
 - (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or
 - (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 11.2. below or sub-clause 11.6.1 of Clause 11.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Borrower making that payment has not complied with its obligations under sub-clause 11.2.10 below or sub-clause 11.6.2 of Clause 11.6 (*HMRC DT Treaty Passport scheme confirmation*).
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- 11.2.8 A UK Non-Bank Lender shall promptly notify the Borrower and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 11.2.9 A Treaty Lender which is an Original Lender and that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Borrower) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
- 11.2.10 Where a Lender includes the indication described in sub-clause 11.2.9 above in Schedule 1 (*Original Parties*), the Borrower shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing **provided that** the Borrower shall not be liable in respect of any non-compliance with its obligations under this sub-clause 11.2.10 where such non-compliance is due to circumstances beyond the control of the Borrower (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Borrower, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 11.2.11 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with sub-clause 11.9 or sub-clause 11.6.1 of Clause 11.6. (*HMRC DT Treaty Passport scheme confirmation*) will reasonably promptly notify the Facility Agent and the Borrower if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
- 11.2.12 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 11.2.9 above or sub-clause 11.6.1 of Clause 11.6 (*HMRC DT Treaty Passport scheme confirmation*), the Borrower shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

11.3 Tax indemnity

- 11.3.1 Except as provided below, the Borrower must indemnify a Finance Party, within three Business Days of demand, against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.
- 11.3.2 Sub-clause 11.3. above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:
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- (a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or
- (b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction, if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.

11.3.3 Sub-clause 11.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:

- (a) is compensated for by an increased payment under Clause 11.2 (*Tax gross-up*);
- (b) would have been compensated for by an increased payment under Clause 11.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 11.2 (*Tax gross-up*) applied; or
- (c) relates to a FATCA Deduction required to be made by a Party.

11.3.4 A Finance Party making, or intending to make, a claim under sub-clause 11.3.1 above must promptly notify the Borrower of the event which will give, or has given, rise to the claim.

11.4 Tax Credit

If the Borrower makes a Tax Payment and the relevant Finance Party determines that:

- 11.4.1 a Tax Credit is attributable to an increased payment of which that Tax Payment forms part, to that Tax Payment or to a Tax Deduction in consequence of which that Tax Payment was required; and
- 11.4.2 that Finance Party has obtained and utilised that Tax Credit,

then, if in its discretion (acting reasonably) it can do so without any further adverse consequences for it, the Finance Party shall pay an amount to the Borrower which that Finance Party determines will leave it (after that payment) in the same after Tax position as it would have been in had the Tax Payment not been required to be made by the Borrower.

11.5 Lender Status Confirmation

Each Lender which is not an Original Lender shall indicate, in the documentation which it executes on becoming a Party as a Lender, and for the benefit of the Facility Agent and without liability to the Borrower, which of the following categories it falls in:

- 11.5.1 not a Qualifying Lender;

11.5.2 a Qualifying Lender (other than a Treaty Lender); or

11.5.3 a Treaty Lender.

If such Lender fails to indicate its status in accordance with this Clause 11.5 then that Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Borrower). For the avoidance of doubt, the documentation which a Lender executes on becoming a Party as a Lender shall not be invalidated by any failure of a Lender to comply with this Clause 11.5.

11.6 HMRC DT Treaty Passport scheme confirmation

11.6.1 A Treaty Lender which is not an Original Lender and that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Borrower) in the documentation which it executes on becoming a Party as a Lender by including its scheme reference number and its jurisdiction of tax residence in that documentation.

11.6.2 Where a New Lender or Increase Lender includes the indication described in sub-clause 11.6.1 above in the relevant documentation which it executes on becoming a Party as a Lender, the Borrower shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date or the date on which such increase takes effect and shall promptly provide the Lender with a copy of that filing.

11.7 Stamp taxes

The Borrower shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

11.8 VAT

11.8.1 All amounts expressed to be payable under a Finance Document by any Party to a Finance Party which (in whole or in part) constitute the consideration for any supply for VAT purposes are deemed to be exclusive of any VAT which is chargeable on that supply and, accordingly, subject to sub-clause 11.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document and such Finance Party is required to account to the relevant tax authority for the VAT, that Party must pay to such Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of the VAT (and such Finance Party must promptly provide an appropriate VAT invoice to that Party).

11.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the "**Supplier**") to any other Finance Party (the "**Recipient**") under a Finance

Document, and any Party other than the Recipient (the "**Relevant Party**") is required by the terms of any Finance Document to pay an amount equal to the consideration for that supply to the Supplier (rather than being required to reimburse or indemnify the Recipient in respect of that consideration):

- (a) (where the Supplier is the person required to account to the relevant tax authority for the VAT) the Relevant Party must also pay to the Supplier (at the same time as paying that amount) an additional amount equal to the amount of the VAT. The Recipient must (where this paragraph (a) applies) promptly pay to the Relevant Party an amount equal to any credit or repayment the Recipient receives from the relevant tax authority which the Recipient reasonably determines relates to the VAT chargeable on that supply; and
 - (b) (where the Recipient is the person required to account to the relevant tax authority for the VAT) the Relevant Party must promptly, following demand from the Recipient pay to the Recipient an amount equal to the VAT chargeable on that supply but only to the extent that the Recipient reasonably determines that it is not entitled to credit or repayment from the relevant tax authority in respect of that VAT.
- 11.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.
- 11.8.4 Any reference in this Clause 11.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term "representative member" to have the same meaning as in the Value Added Tax Act 1994).
- 11.8.5 In relation to any supply made by a Finance Party to any Party under a Finance Document if reasonably requested by such Finance Party that Party must promptly provide such Finance Party with details of that Party's VAT registration and such other information as is reasonably requested in connection with such Finance Party's VAT reporting requirements in relation to such supply.

11.9 FATCA Information

- 11.9.1 Subject to sub-clause 11.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:
- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party;
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- (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA; and
 - (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.
- 11.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 11.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- 11.9.3 Sub-clause 11.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 11.9.1 above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (a) any law or regulation;
 - (b) any fiduciary duty; or
 - (c) any duty of confidentiality.
- 11.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraphs (a) or (b) of sub-clause 11.9.1 above (including, for the avoidance of doubt, where sub-clause 11.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

11.10 FATCA Deduction

- 11.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction or otherwise compensate the recipient of the payment for that FATCA Deduction.
- 11.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Borrower and the Facility Agent and the Facility Agent shall notify the other Finance Parties.

12. INCREASED COSTS

12.1 Increased Costs

Except as provided below in this Clause, the Borrower must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 12.1.1 the introduction of, or any change in, or any change in the interpretation, administration or application of, any law or regulation;
- 12.1.2 compliance with any law or regulation made after the date of this Agreement;
- 12.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV to the extent such increased costs were not reasonably capable of being accurately calculated prior to the date of this Agreement; or
- 12.1.4 compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act or any law or regulation made under, or connected with, that Act.

12.2 Exceptions

The Borrower need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 12.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 12.2.2 attributable to a Tax Deduction required by law to be made by the Borrower;
- 12.2.3 compensated for by Clause 11.3 (*Tax indemnity*) (or would have been compensated for under Clause 11.3 (*Tax indemnity*) but was not so compensated solely because any of the exclusions in sub-clause 11.3.2 or 11.3.3 of Clause 11.3 (*Tax indemnity*) applied);
- 12.2.4 attributable to a FATCA Deduction required to be made by a Party;
- 12.2.5 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation; or
- 12.2.6 attributable to the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) ("**Basel II**") or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates).

12.3 Claims

A Finance Party intending to make a claim for an Increased Cost must notify the Borrower promptly of the circumstances giving rise to, and the amount of, the claim.

13. MITIGATION

13.1 Mitigation

- 13.1.1 Each Finance Party shall, in consultation with the Borrower (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:
- (a) any Tax Payment or Increased Cost being payable to that Finance Party;
 - (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
 - (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
 - (d) the occurrence of any market disruption event,
- including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.
- 13.1.2 A Finance Party is not obliged to take any step under this Clause 13 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.
- 13.1.3 Each Finance Party must promptly notify the Borrower of any circumstances as described in paragraphs (a) to (d) of sub-clause 13.1.1 of this Clause 13.1.
- 13.1.4 The Borrower must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 13.1.
- 13.1.5 This Clause does not in any way limit the obligations of the Borrower under the Finance Documents.

13.2 Substitution

Notwithstanding Clause 13.1 (*Mitigation*), if any circumstances arise which result in:

- 13.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 13.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- 13.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
- 13.2.4 the occurrence of any market disruption event,

then the Borrower, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and

to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 27 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to an Eligible Institution (a "**Replacement Finance Party**") which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party's participations or unfunded participations (as the case may be) on the same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer in an amount equal to the outstanding principal amount of such Finance Party's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 27.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that**:

- 13.2.5 the Borrower shall have paid to the Finance Party (or, if applicable, its Affiliate) all amounts accrued and owing to such Finance Party (or, if applicable, its Affiliate) hereunder;
- 13.2.6 the Borrower shall have no right to replace the Facility Agent;
- 13.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Borrower to find a Replacement Finance Party;
- 13.2.8 the transfer must take place no later than 14 days after the notice referred to above;
- 13.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and
- 13.2.10 the Finance Party shall only be obligated to transfer its rights and obligations pursuant to this Clause 13.2 once it is satisfied that it has complied with all necessary "know your customer requirements" or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

Notwithstanding the above, the Borrower shall not be entitled to require a novation under this Clause 13.2 with respect to any Finance Party if:

- 13.2.11 the relevant Finance Party shall have mitigated the effect of the relevant event or circumstance as provided in sub-clause 13.1.1 of Clause 131 (*Mitigation*), and the novation would have no greater or further mitigating effect; or
- 13.2.12 the relevant event or circumstances are applicable to all Finance Parties.

13.3 **Conduct of business by a Finance Party**

No term of this Agreement will:

- 13.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or

13.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

14. PAYMENTS

14.1 Place

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents must be made to the Facility Agent to its account at such office or bank in the principal financial centre of the country of that currency as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

14.2 Funds

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

14.3 Distribution

14.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank in the principal financial centre of the country of that currency, as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

14.3.2 The Facility Agent may apply any amount received by it for the Borrower in or towards payment (as soon as practicable after receipt) of any amount due from the Borrower under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

14.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party (or enter into or perform any related exchange contract) until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. Unless sub-clause 14.3.4 applies, if it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

14.3.4 If the Facility Agent has notified the Lenders that it is willing to make available amounts for the account of the Borrower before receiving funds from the Lenders then if and to the extent that the Facility Agent does so but it proves to be the case

that it does not then receive funds from a Lender in respect of a sum which it paid to the Borrower:

- (a) the Borrower shall on demand refund it to the Facility Agent; and
- (b) the Lender by whom those funds should have been made available or, if that Lender fails to do so, the Borrower shall on demand pay to the Facility Agent the amount (as certified by the Facility Agent) which will indemnify the Facility Agent against any funding cost incurred by it as a result of paying out that sum before receiving those funds from that Lender.

14.4 Currency of account

- 14.4.1 Subject to sub-clauses 14.4.2 and 14.4.3 below, Sterling is the currency of account and payment for any sum due from the Borrower under any Finance Document.
- 14.4.2 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.
- 14.4.3 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

14.5 No set-off or counterclaim

All payments made by the Borrower under the Finance Documents must be made without set-off or counterclaim.

14.6 Business Days

- 14.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.
- 14.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

14.7 Impaired Agent

- 14.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Borrower or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 14.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Borrower or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.

- 14.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 14.7.3 A Party which has made a payment in accordance with this Clause 14.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.
- 14.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 20.13 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 14.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 14.3 (*Distribution*).
- 14.7.5 For the purposes of this Clause 14.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

14.8 Partial payments

- 14.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Borrower under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Borrower under the Finance Documents in the following order:
- (a) **first**, in or towards payment *pro rata* of any unpaid amounts owing to the Administrative Parties under the Finance Documents;
 - (b) **secondly**, in or towards payment *pro rata* of any accrued interest or fee due but unpaid under this Agreement;
 - (c) **thirdly**, in or towards payment *pro rata* of any principal amount due but unpaid under this Agreement; and
 - (d) **fourthly**, in or towards payment *pro rata* of any other sum due but unpaid under the Finance Documents.
- 14.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (b) to (d) of sub-clause 14.8.1 of this Clause 14.8.
- 14.8.3 This Clause will override any appropriation made by the Borrower.

14.9 Timing of payments

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

15. REPRESENTATIONS

15.1 Representations

The representations set out in this Clause are made by the Borrower to each Finance Party.

15.2 Status

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

15.3 Powers and authority

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

15.4 Legal validity

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

15.5 Non-conflict

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

15.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

15.5.2 its constitutional documents.

15.6 No default

15.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

15.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

15.7 Authorisations

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

15.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

15.7.2 to make the Finance Documents admissible in evidence in England and Wales,

have been obtained or effected (as appropriate) and are in full force and effect.

15.8 Financial statements

Its and each of the Distribution Companies' audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

15.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

15.8.2 fairly present its consolidated financial condition as at the date to which they were drawn up,

except, in each case, as disclosed to the contrary in those financial statements.

15.9 No material adverse change

Other than as disclosed in writing to the Arranger prior to the date of this Agreement, there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

15.10 Litigation

15.10.1 No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

15.10.2 No judgment or order of a court, arbitral body or agency which might reasonably be expected to have a Material Adverse Effect has (to the best of its knowledge and belief having made due and careful enquiry) been made against it or any of its Subsidiaries.

15.11 Winding Up

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

15.12 Non-Violation of other Agreements

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

15.13 Governing Law and Enforcement

15.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

15.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

15.14 Deduction of Tax

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

15.14.1 a Qualifying Lender:

- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or
- (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
- (c) falling within paragraph (b) of the definition of Qualifying Lender; or

15.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

15.15 No filing or stamp taxes

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

15.16 No misleading information

15.16.1 Any factual information provided by any member of the Group to any Finance Party in connection with the Facility was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.

15.16.2 Nothing has occurred or been omitted from the information provided to any Finance Party in connection with the Facility and no information has been given or withheld that results in the information provided being untrue or misleading in any material respect.

15.17 Pari Passu ranking

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

15.18 Licence

Each Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of any Licence.

15.19 **Anti-corruption law**

Each member of the Group has conducted its businesses in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance with such laws.

15.20 **Sanctions**

No member of the Group or, to the knowledge of the Borrower, any director, officer employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "**Person**") currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the U.S. Department of State, the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of Sanctions. The Borrower represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Burma/Myanmar, Syria, Cuba, Iran, North Korea, Sudan, the Crimea region or in any other country or territory, that, at the time of such funding, is the subject of Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

15.21 **Times for making representations**

15.21.1 The representations set out in this Clause are made by the Borrower on the date of this Agreement.

15.21.2 The representations in Clauses 15.2 to 15.9 (inclusive), 15.10, 15.12, and 15.13, are deemed to be repeated by the Borrower on the date of each Request and the first day of each Term.

15.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

16. **INFORMATION COVENANTS**

16.1 **Financial statements**

16.1.1 The Borrower must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its and each of the Distribution Companies' audited consolidated financial statements for each of their financial years; and

(b) its interim consolidated financial statements for the first half-year of each of its financial years.

16.1.2 All financial statements must be supplied as soon as they are available and:

(a) in the case of the Borrower's and each of the Distribution Companies' audited consolidated financial statements, within 180 days; and

(b) in the case of the Borrower's interim financial statements, within 90 days,
of the end of the relevant financial period.

16.2 Form of Financial Statement

If any financial statement delivered or to be delivered to the Facility Agent under Clause 16.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

16.2.1 the Borrower and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Borrower, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 17 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

16.2.2 if amendments are agreed by the Borrower and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

16.2.3 if such amendments are not so agreed within 25 days, the Borrower shall:

(a) within 30 days after the end of that 25 day period; and

(b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 16.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

16.3 Compliance Certificate

16.3.1 The Borrower must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.

16.3.2 Each Compliance Certificate must be signed by two directors of the Borrower.

16.4 Information - miscellaneous

The Borrower must supply to the Facility Agent, in sufficient copies for all the Lenders:

- 16.4.1 copies of all documents despatched by the Borrower to its creditors generally (or any class of them) at the same time as they are despatched;
- 16.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any member of the Group and which might, if adversely determined, have a Material Adverse Effect;
- 16.4.3 promptly upon becoming aware of them, the details of any judgment or order of a court, arbitral body or agency which is made against any member of the Group, and which might have a Material Adverse Effect;
- 16.4.4 promptly, details of the loss of any Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of any Licence;
- 16.4.5 promptly, details of any modification of an authorisation or other material regulatory notices received by any Distribution Company from OFGEM or any other government agency;
- 16.4.6 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which any Distribution Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);
- 16.4.7 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);
- 16.4.8 within five Business Days of receiving them, details of any change to the Rating by Moody's or Standard & Poor's;
- 16.4.9 the Borrower shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Borrower), actuarial reports in relation to all pension schemes mentioned in sub-clause 18.15.2 of Clause 18.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Borrower is at that time a participating employer and to those reports which have been provided to the Borrower; and
- 16.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

16.5 Notification of Default

- 16.5.1 The Borrower must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
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16.5.2 Promptly on request by the Facility Agent, the Borrower must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

16.6 Use of websites

16.6.1 Except as provided below, the Borrower may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:

- (a) the Facility Agent and the Lender agree;
- (b) the Borrower and the Facility Agent designate an electronic website for this purpose;
- (c) the Borrower notifies the Facility Agent of the address of and password for the website; and
- (d) the information posted is in a format agreed between the Borrower and the Facility Agent.

The Facility Agent must supply each relevant Lender with the address of and password for the website.

16.6.2 Notwithstanding the above, the Borrower must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:

- (a) any Lender not agreeing to receive information via the website; and
- (b) any other Lender within ten Business Days of request by that Lender.

16.6.3 The Borrower must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

- (a) the website cannot be accessed;
- (b) the website or any information on the website is infected by any electronic virus or similar software;
- (c) the password for the website is changed; or
- (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Borrower must supply any information required under this Agreement in paper form.

16.7 Know your customer requirements

16.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;
- (b) any change in the status of the Borrower (or a Holding Company of a Borrower) after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with "know your customer requirements" or similar identification procedures in circumstances where the necessary information is not already available to it, the Borrower shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (c) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (c) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer requirements" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

17. FINANCIAL COVENANTS

17.1 Definitions

In this Clause:

"Cash" means, at any time, cash denominated in a currency of an Acceptable Jurisdiction in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
- (c) there is no Security Interest over that cash other than Security Interests permitted under paragraph (b) of sub-clause 18.5.3 of Clause 18.5 (*Negative pledge*); and

- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

"Cash Equivalent Investments" means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investors Service Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) Sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investors Service Limited;
 - (ii) invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days' notice; or
- (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group) beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under paragraph (b) of sub-clause 18.5.3 of Clause 18.5 (*Negative pledge*)).

"Consolidated EBITDA" means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

"Interest Payable" means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the relevant currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

"Regulatory Asset Value" means at any date, the regulatory asset value of the Distribution Companies for such date as last determined and notified by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset value and adjusted as appropriate for out-turn inflation / regulatory depreciation).

"Total Net Debt" means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

17.2 Interpretation

17.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

17.2.2 Any amount in a currency other than Sterling is to be taken into account at its Sterling equivalent calculated on the basis of:

- (a) the Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on the day the relevant amount falls to be calculated; or

- (b) if the amount is to be calculated on the last day of a financial period of the Borrower, the relevant rates of exchange used by the Borrower in, or in connection with, its financial statements for that period.

17.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

17.3 Interest cover

The Borrower must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

17.4 Asset Cover

The Borrower must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed:

17.4.1 for the purpose of the calculations referred to in the Distribution Certificate pursuant to Clause 18.17 (*Dividends and Distribution*), 85%; and

17.4.2 in all other respects, 87.5%,

in each case, of the Regulatory Asset Value.

17.5 Calculation of Interest Payable

For the purpose of the financial covenant set out in Clause 17.3 (*Interest cover*), in relation to any Measurement Period ending less than 12 months from the date of this Agreement, Interest Payable shall be calculated ignoring any amounts accrued before the date of this Agreement and in respect of the period after the date of this Agreement shall be increased by a factor of A/B where 'A' is 365 and 'B' is the total number of calendar days between the date of this Agreement and the last day of such Measurement Period.

18. GENERAL COVENANTS

18.1 General

The Borrower agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Distribution Company or each member of the Group, the Borrower must ensure that each Distribution Company or each of its Subsidiaries, as the case may be, performs that covenant.

18.2 Authorisations

The Borrower must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or for the validity or enforceability of, any Finance Document.

18.3 Compliance with laws

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

18.4 **Pari passu ranking**

The Borrower must ensure that its payment obligations under the Finance Documents rank at least *pari passu* with all its other present and future unsecured and unsubordinated payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

18.5 **Negative pledge**

In this Clause 18.5, "**Quasi-Security**" means an arrangement or transaction described in sub-clause 18.5.2 below.

18.5.1 Except as provided below, none of the Borrower, any Distribution Company nor any Holding Company of a Distribution Company may create or allow to exist any Security Interest or Quasi-Security on any of its assets.

18.5.2 Except as provided below, none of the Borrower, any Distribution Company nor any Holding Company of a Distribution Company may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or reacquired by the Borrower or any other member of the Group;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

18.5.3 Sub-clauses 18.5.1 and 18.5.2 do not apply to:

- (a) any Security Interest or Quasi-Security created over the assets of or any shares or other ownership interests in any entity which becomes a member of the Group after the date of this Agreement as a result of a Permitted Acquisition **provided that** the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of such acquisition;
- (b) any Security Interest or Quasi-Security created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;

- (c) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
 - (d) any Security Interest or Quasi-Security arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
 - (e) any Security Interest or Quasi-Security created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or nominal amount not exceeding the cost of that acquisition, **provided that** the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of acquisition of such asset;
 - (f) any Security Interest or Quasi-Security outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, **provided that** the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of acquisition of such asset;
 - (g) any Security Interest or Quasi-Security created or outstanding on or over any asset of any company which becomes a Subsidiary of the Borrower after the date of this Agreement where such Security Interest or Quasi-Security is created prior to the date on which such company becomes a Subsidiary of the Borrower and is not created or increased in contemplation of such company being acquired and/or becoming a Subsidiary of the Borrower and the Security Interest or Quasi-Security is removed or discharged within 6 months of the date of such company becoming a Subsidiary of the Borrower;
 - (h) any Security Interest or Quasi-Security created on any asset to secure any Financial Indebtedness incurred in connection with the financing of any asset or project in respect of which the repayment of that Financial Indebtedness is to be made from the revenues arising out of, or other proceeds of realisation from, that asset or project, with recourse to those revenues and proceeds and other assets used in connection with, or forming the subject matter of, that asset or project but without recourse (or with such limited recourse as the Majority Lenders may from time to time agree) to any other assets of the Group;
 - (i) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
 - (j) any Security Interest or Quasi-Security created or outstanding with the prior approval of the Majority Lenders; and
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- (k) any Security Interest or Quasi-Security created or outstanding on or over assets of:
 - (i) the Borrower provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security created or outstanding under this exception on or over such assets shall not at any time exceed £5,000,000 or its equivalent; and
 - (ii) a Distribution Company provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security created or outstanding under this exception on or over such assets shall not at any time exceed £20,000,000 or its equivalent for each Distribution Company.

18.6 Disposals

18.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash).

18.6.2 Sub-clause 18.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity;
 - (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
 - (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
 - (d) the exchange of assets for other assets of a similar or superior nature and value (other than an exchange of a non-cash asset for cash), or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 6 months;
 - (e) the disposal of assets by one wholly-owned Subsidiary of the Borrower to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Borrower by one of its Subsidiaries;
 - (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, **provided that** the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains payable under this Agreement shall not exceed £100,000,000 or its equivalents;
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- (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account; and
- (h) any disposal of any assets (including shares) other than:
 - (i) any shares held in any Distribution Company or in any Holding Company of a Distribution Company; and
 - (ii) any assets of a Distribution Company,

for cash where the higher of the market value and net consideration receivable (when aggregated with the higher of the market value and net consideration receivable for any other sale, lease, licence, transfer or other disposal of any such assets which is not permitted under any other paragraph of this sub-clause 18.6.2) does not exceed 10% of the Regulatory Asset Value (as defined in Clause 17.1 (*Definitions*)) at the relevant time.

18.7 Environmental matters

18.7.1 The Borrower will and will ensure that each Distribution Company will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

18.7.2 The Borrower will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against it or any Distribution Company which is current, pending or threatened; and
- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against it or any Distribution Company,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

18.8 Insurance

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

18.9 Merger

The Borrower shall not enter into any amalgamation, demerger, merger, corporate reconstruction or reorganisation.

18.10 Change of business

The Borrower shall procure that no substantial change is made to the general nature of the business of the Borrower or the Group from that carried on at the date of this Agreement.

18.11 Acquisitions

18.11.1 Except as provided below neither the Borrower nor any other member of the Group may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

18.11.2 **Provided that** no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 18.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 18.6.2 of Clause 18.6 (*Disposals*) above;
- (b) any Permitted Acquisition; or
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

18.12 Prohibition on the Debt Purchase Transactions of the Group

The Borrower shall not, and shall procure that no other member of the Group shall, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

18.13 Prohibition on Subsidiary Financial Indebtedness

The Borrower shall procure that no member of the Group (other than the Borrower, any Distribution Company or any Subsidiary which is not a Holding Company of a Distribution Company) will incur or allow to remain outstanding any Financial Indebtedness (other than Financial Indebtedness owed to another member of the Group).

18.14 Arm's length transactions

The Borrower shall not (and shall ensure that no member of the Group shall) enter into any transactions with any other member of the PPL Group except on arm's length terms and for full market value (or on terms which are more favourable to the Group).

18.15 Pensions

18.15.1 The Borrower shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).

18.15.2 Except in respect of WPD South Wales Plc for the Western Power Utilities Pension Scheme, the Infracore 92 Scheme and the WPD Group Electricity Supply Pension Scheme (and in the case of merger, the CN Group of the ESPS) the Borrower shall

ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.

- 18.15.3 The Borrower shall promptly notify the Facility Agent of any material change in the rate of contributions payable or paid by it to any of the pension schemes mentioned in sub-clause 18.15.2 above (whether required by law or otherwise).
- 18.15.4 The Borrower shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.
- 18.15.5 The Borrower shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

18.16 Licence

The Borrower will procure that each Distribution Company will at all times:

- 18.16.1 comply with the terms of its Licence in all material respects;
- 18.16.2 without prejudice to the generality of sub-clause 18.16.1 above, comply with the ring fencing provisions of its Licence in all respects; and
- 18.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of its Licence.

18.17 Dividends and Distribution

The Borrower (and any other member of the Group) will be permitted, at any time, to:

- (a) declare, make or pay any dividend, charge, fee or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);
- (b) repay or distribute any dividend or share premium reserve;
- (c) pay or allow any member of the Group to pay any management, advisory or other fee to or to the order of any of the shareholders of the Borrower; or
- (d) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so,

provided that the Borrower, prior to any action referred to in paragraphs (a) to (d) above being taken, delivers to the Facility Agent a Distribution Certificate, signed by two directors of the Borrower, certifying that, taking into account any such payment, the Borrower will be in compliance with its obligations under Clause 17 (*Financial Covenants*) on each of the next two Measurement Dates.

18.18 Sanctions

- 18.18.1 The Borrower shall ensure that neither it nor any other member of the Group shall be the subject of any Sanctions, and that no member of the Group shall be located, organised or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.
- 18.18.2 The Borrower undertakes to ensure that no member of the Group will, directly or indirectly, use the proceeds of the Facility, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Burma/Myanmar, Syria, Cuba, Iran, North Korea, Sudan, the Crimea region or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the Facility) of Sanctions.
- 18.18.3 The Borrower shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Burma/Myanmar, Syria, Cuba, Iran, North Korea, Sudan, the Crimea region or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

18.19 Anti-corruption law

- 18.19.1 The Borrower shall not (and shall ensure that no other member of the Group will) directly or indirectly use the proceeds of the Facility for any purpose which would breach the Bribery Act 2010, the United States Foreign Corrupt Practices Act of 1977 or other similar legislation in other jurisdictions.
- 18.19.2 The Borrower shall (and shall ensure that each other member of the Group will):
- (a) conduct its business in compliance with applicable anti-corruption laws; and
 - (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

19. DEFAULT

19.1 Events of Default

Each of the events set out in this Clause is an Event of Default.

19.2 Non-payment

The Borrower fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- 19.2.1 administrative or technical error; or
- 19.2.2 a Disruption Event,

and payment is made within five Business Days of its due date.

19.3 Breach of other obligations

- 19.3.1 The Borrower does not perform or comply with its obligations under Clause 17 (*Financial Covenants*), Clause 18.5 (*Negative pledge*), Clause 18.6 (*Disposals*), Clause 18.11 (*Acquisitions*) or Clause 18.18 (*Sanctions*).
- 19.3.2 The representation and warranty by the Borrower in Clause 15.20 (*Sanctions*) is or proves to have been incorrect when made.
- 19.3.3 The Borrower does not perform or comply with any of its other obligations under any Finance Document (other than those referred to in Clause 19.2 (*Non-payment*) and in sub-clause 19.3.1 above) in any material respect or any representation or warranty by the Borrower in this Agreement (other than that referred to in sub-clause 19.3.2 above) or in any document delivered under this Agreement is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstance giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 15 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Borrower becoming aware of such non-compliance or misrepresentation, as the case may be.

19.4 Cross-default

- 19.4.1 Any Financial Indebtedness of the Borrower or any Distribution Company is not paid when due nor within any originally applicable grace period.
- 19.4.2 Any Financial Indebtedness of the Borrower or any Distribution Company is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- 19.4.3 Any commitment for any Financial Indebtedness of the Borrower or any Distribution Company is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).
- 19.4.4 Any creditor of the Borrower or any Distribution Company becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- 19.4.5 No Event of Default will occur under this Clause 19.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 19.4.1 to 19.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

19.5 Insolvency

- 19.5.1 Any of the following occurs in respect of the Borrower:
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- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
- (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
- (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
- (d) a moratorium is declared in respect of any of its indebtedness.

19.5.2 If a moratorium occurs in respect of the Borrower, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

19.6 Insolvency proceedings

19.6.1 Except as provided below, any of the following occurs in respect of the Borrower:

- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
- (b) any person presents a petition for its winding-up, administration or dissolution;
- (c) an order for its winding-up, administration or dissolution is made;
- (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;
- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

19.6.2 Sub-clause 19.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

19.7 Creditors' process

A distress, attachment, execution or other legal process material in relation to the Borrower's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Borrower and is not discharged or stayed within 30 days.

19.8 Licence

Either:

19.8.1 notice is given to revoke or terminate any Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

19.8.2 any Licence is revoked,

in either case, other than in circumstances which permit the Borrower or the relevant Distribution Company to carry on the distribution business of the relevant Distribution Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the relevant Licence, issued under the Act or pursuant to the Utilities Act, 2000.

19.9 Balancing and Settlement Code

19.9.1 Any Distribution Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where that Distribution Company is able to carry on its distribution business.

19.9.2 Any Distribution Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

19.10 Unlawfulness and invalidity

19.10.1 It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Documents in any material respect.

19.10.2 Any obligation or obligations of the Borrower under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.

19.11 Cessation of business

The Borrower or any Distribution Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 18.6 (*Disposals*).

19.12 Repudiation and rescission of agreements

The Borrower (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.

19.13 Ownership of the Distribution Companies

The Borrower ceases to own (directly or indirectly) 100% of the shares in any Distribution Company.

19.14 Material Adverse Effect

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

19.15 Acceleration

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Borrower:

19.15.1 cancel the Total Commitments; and/or

19.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:

- (a) immediately due and payable; and/or
- (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders.

Any notice given under this Clause will take effect in accordance with its terms.

20. ROLE OF THE FACILITY AGENT AND THE ARRANGER

20.1 Appointment of the Facility Agent

20.1.1 Each of the Arranger and the Lenders appoints the Facility Agent to act as its agent under and in connection with the Finance Documents.

20.1.2 Each of the Arranger and the Lenders authorises the Facility Agent to perform the duties, obligations and responsibilities and to exercise the rights, powers, authorities and discretions specifically given to the Facility Agent under or in connection with the Finance Documents together with any other incidental rights, powers, authorities and discretions.

20.2 Instructions

20.2.1 The Facility Agent shall:

- (a) unless a contrary indication appears in a Finance Document, exercise or refrain from exercising any right, power, authority or discretion vested in it as Facility Agent in accordance with any instructions given to it by:

- (i) all Lenders if the relevant Finance Document stipulates the matter is an all Lender decision; and
 - (ii) in all other cases, the Majority Lenders; and
 - (b) not be liable for any act (or omission) if it acts (or refrains from acting) in accordance with paragraph (a) above.
- 20.2.2 The Facility Agent shall be entitled to request instructions, or clarification of any instruction, from the Majority Lenders (or, if the relevant Finance Document stipulates the matter is a decision for any other Lender or group of Lenders, from that Lender or group of Lenders) as to whether, and in what manner, it should exercise or refrain from exercising any right, power, authority or discretion. The Facility Agent may refrain from acting unless and until it receives any such instructions or clarification that it has requested.
- 20.2.3 Save in the case of decisions stipulated to be a matter for any other Lender or group of Lenders under the relevant Finance Document and unless a contrary indication appears in a Finance Document, any instructions given to the Facility Agent by the Majority Lenders shall override any conflicting instructions given by any other Parties and will be binding on all Finance Parties.
- 20.2.4 The Facility Agent may refrain from acting in accordance with any instructions of any Lender or group of Lenders until it has received any indemnification and/or security that it may in its discretion require (which may be greater in extent than that contained in the Finance Documents and which may include payment in advance) for any cost, loss or liability which it may incur in complying with those instructions.
- 20.2.5 In the absence of instructions, the Facility Agent may act (or refrain from acting) as it considers to be in the best interest of the Lenders.
- 20.2.6 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings relating to any Finance Document.

20.3 Duties of the Facility Agent

- 20.3.1 The Facility Agent's duties under the Finance Documents are solely mechanical and administrative in nature.
 - 20.3.2 Subject to sub-clause 20.3.3 below, the Facility Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Facility Agent for that Party by any other Party.
 - 20.3.3 Without prejudice to Clause 27.7 (*Copy of Transfer Certificate, Assignment Agreement or Increase Confirmation to the Borrower*), sub-clause 20.3.2 above shall not apply to any Transfer Certificate, Assignment Agreement or Increase Confirmation.
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- 20.3.4 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 20.3.5 If the Facility Agent receives notice from a Party referring to this Agreement, describing a Default and stating that the circumstance described is a Default, it shall promptly notify the other Finance Parties.
- 20.3.6 If the Facility Agent is aware of the non-payment of any principal, interest, commitment fee or other fee payable to a Finance Party (other than the Facility Agent or the Arranger) under this Agreement it shall promptly notify the other Finance Parties.
- 20.3.7 The Facility Agent shall have only those duties, obligations and responsibilities expressly specified in the Finance Documents to which it is expressed to be a party (and no others shall be implied).

20.4 **Role of the Arranger**

Except as specifically provided in the Finance Documents, the Arranger has no obligation of any kind to any other Party under or in connection with any Finance Document.

20.5 **No fiduciary duties**

- 20.5.1 Nothing in any Finance Document constitutes the Facility Agent or the Arranger as a trustee or fiduciary of any other person.
- 20.5.2 Neither the Facility Agent nor the Arranger shall be bound to account to any Lender for any sum or the profit element of any sum received by it for its own account.

20.6 **Business with the Group**

The Facility Agent and the Arranger may accept deposits from, lend money to and generally engage in any kind of banking or other business with any member of the Group.

20.7 **Rights and discretions**

20.7.1 The Facility Agent may:

- (a) rely on any representation, communication, notice or document believed by it to be genuine, correct and appropriately authorised;
- (b) assume that:
 - (i) any instructions received by it from the Majority Lenders, any Lenders or any group of Lenders are duly given in accordance with the terms of the Finance Documents; and
 - (ii) unless it has received notice of revocation, that those instructions have not been revoked; and

- (c) rely on a certificate from any person:
 - (i) as to any matter of fact or circumstance which might reasonably be expected to be within the knowledge of that person; or
 - (ii) to the effect that such person approves of any particular dealing, transaction, step, action or thing, as sufficient evidence that that is the case and, in the case of paragraph (i) above, may assume the truth and accuracy of that certificate.
 - 20.7.2 The Facility Agent may assume (unless it has received notice to the contrary in its capacity as agent for the Lenders) that:
 - (a) no Default has occurred (unless it has actual knowledge of a Default arising under Clause 19.2 (*Non-payment*)); and
 - (b) any right, power, authority or discretion vested in any Party or any group of Lenders has not been exercised.
 - 20.7.3 The Facility Agent may engage and pay for the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts.
 - 20.7.4 Without prejudice to the generality of sub-clause 20.7.3 above or sub-clause 20.7.5 below, the Facility Agent may at any time engage and pay for the services of any lawyers to act as independent counsel to the Facility Agent (and so separate from any lawyers instructed by the Lenders) if the Facility Agent in its reasonable opinion deems this to be necessary.
 - 20.7.5 The Facility Agent may rely on the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts (whether obtained by the Facility Agent or by any other Party) and shall not be liable for any damages, costs or losses to any person, any diminution in value or any liability whatsoever arising as a result of its so relying.
 - 20.7.6 The Facility Agent may act in relation to the Finance Documents through its officers, employees and agents.
 - 20.7.7 Unless a Finance Document expressly provides otherwise the Facility Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.
 - 20.7.8 Notwithstanding any other provision of any Finance Document to the contrary, neither the Facility Agent nor the Arranger is obliged to do or omit to do anything if it would, or might in its reasonable opinion, constitute a breach of any law or regulation or a breach of a fiduciary duty or duty of confidentiality.
 - 20.7.9 Notwithstanding any provision of any Finance Document to the contrary, the Facility Agent is not obliged to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties, obligations or responsibilities
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or the exercise of any right, power, authority or discretion 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.

20.8 Responsibility for documentation

Neither the Facility Agent nor the Arranger is responsible or liable for:

- 20.8.1 the adequacy, accuracy or completeness of any information (whether oral or written) supplied by the Facility Agent, the Arranger, the Borrower or any other person in or in connection with any Finance Document or the transactions contemplated in the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- 20.8.2 the legality, validity, effectiveness, adequacy or enforceability of any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; or
- 20.8.3 any determination as to whether any information provided or to be provided to any Finance Party is non-public information the use of which may be regulated or prohibited by applicable law or regulation relating to insider dealing or otherwise.

20.9 No duty to monitor

The Facility Agent shall not be bound to enquire:

- 20.9.1 whether or not any Default has occurred;
- 20.9.2 as to the performance, default or any breach by any Party of its obligations under any Finance Document; or
- 20.9.3 whether any other event specified in any Finance Document has occurred.

20.10 Exclusion of liability

20.10.1 Without limiting sub-clause 20.10.2 below (and without prejudice to any other provision of any Finance Document excluding or limiting the liability of the Facility Agent), the Facility Agent will not be liable for:

- (a) any damages, costs or losses to any person, any diminution in value, or any liability whatsoever arising as a result of taking or not taking any action under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct;
- (b) exercising, or not exercising, any right, power, authority or discretion given to it by, or in connection with, any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with, any Finance Document, other than by reason of its gross negligence or wilful misconduct; or

(c) without prejudice to the generality of paragraphs (a) and (b) above, any damages, costs or losses to any person, any diminution in value or any liability whatsoever (but not including any claim based on the fraud of the Facility Agent) arising as a result of:

(i) any act, event or circumstance not reasonably within its control; or

(ii) the general risks of investment in, or the holding of assets in, any jurisdiction,

including (in each case and without limitation) such damages, costs, losses, diminution in value or liability arising as a result of: nationalisation, expropriation or other governmental actions; any regulation, currency restriction, devaluation or fluctuation; market conditions affecting the execution or settlement of transactions or the value of assets (including any Disruption Event); breakdown, failure or malfunction of any third party transport, telecommunications, computer services or systems; natural disasters or acts of God; war, terrorism, insurrection or revolution; or strikes or industrial action.

20.10.2 No Party (other than the Facility Agent) may take any proceedings against any officer, employee or agent of the Agent in respect of any claim it might have against the Facility Agent or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Facility Agent may rely on this Clause subject to Clause 1.3 (*Third party rights*) and the provisions of the Third Parties Act.

20.10.3 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.

20.10.4 Nothing in this Agreement shall oblige the Facility Agent or the Arranger to carry out:

(a) any "know your customer requirements" or other checks in relation to any person; or

(b) any check on the extent to which any transaction contemplated by this Agreement might be unlawful for any Lender or for any Affiliate of any Lender,

on behalf of any Lender and each Lender confirms to the Facility Agent and the Arranger that it is solely responsible for any such checks it is required to carry out and that it may not rely on any statement in relation to such checks made by the Facility Agent or the Arranger.

20.10.5 Without prejudice to any provision of any Finance Document excluding or limiting the Facility Agent's liability, any liability of the Facility Agent arising under or in connection with any Finance Document shall be limited to the amount of actual loss which has been suffered (as determined by reference to the date of default of the Facility Agent 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 Facility Agent at any time which increase the amount of that loss. In no event shall the Facility Agent be liable for any loss of profits, goodwill, reputation, business opportunity or anticipated saving, or for special, punitive, indirect or consequential damages, whether or not the Facility Agent has been advised of the possibility of such loss or damages.

20.11 Lenders' indemnity to the Facility Agent

Each Lender shall (in proportion to its share of the Total Commitments or, if the Total Commitments are then zero, to its share of the Total Commitments immediately prior to their reduction to zero) indemnify the Facility Agent, within three Business Days of demand, against any cost, loss or liability incurred by the Facility Agent (otherwise than by reason of the Facility Agent's gross negligence or wilful misconduct), in acting as Facility Agent under the Finance Documents (unless the Facility Agent has been reimbursed by the Borrower pursuant to a Finance Document).

20.12 Resignation of the Facility Agent

20.12.1 The Facility Agent may resign and appoint one of its Affiliates acting through an office in the United Kingdom as successor by giving notice to the Lenders and the Borrower.

20.12.2 Alternatively the Facility Agent may resign by giving 30 days' notice to the Lenders and the Borrower, in which case the Majority Lenders (after consultation with the Borrower) may appoint a successor Facility Agent.

20.12.3 If the Majority Lenders have not appointed a successor Facility Agent in accordance with sub-clause 20.12.2 above within 20 days after notice of resignation was given, the retiring Facility Agent (after consultation with the Borrower) may appoint a successor Facility Agent (acting through an office in the United Kingdom).

20.12.4 If the Facility Agent wishes to resign because (acting reasonably) it has concluded that it is no longer appropriate for it to remain as agent and the Facility Agent is entitled to appoint a successor Facility Agent under sub-clause 20.12.3 above, the Facility Agent may (if it concludes (acting reasonably) that it is necessary to do so in order to persuade the proposed successor Facility Agent to become a party to this Agreement as Facility Agent) agree with the proposed successor Facility Agent amendments to this Clause 20 and any other term of this Agreement dealing with the rights or obligations of the Facility Agent consistent with then current market practice for the appointment and protection of corporate trustees together with any reasonable amendments to the agency fee payable under this Agreement which are consistent with the successor Facility Agent's normal fee rates and those amendments will bind the Parties.

- 20.12.5 The retiring Facility Agent shall, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- 20.12.6 The Facility Agent's resignation notice shall only take effect upon the appointment of a successor.
- 20.12.7 Upon the appointment of a successor, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents (other than its obligations under sub-clause 20.12.5 above) but shall remain entitled to the benefit of Clause 24.2.3 (*Indemnity to the Facility Agent*) and this Clause 20 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date). Any successor and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.
- 20.12.8 The Facility Agent shall resign in accordance with sub-clause 20.12.2 above (and, to the extent applicable, shall use reasonable endeavours to appoint a successor Facility Agent pursuant to sub-clause 20.12.3 above) if on or after the date which is three months before the earliest FATCA Application Date relating to any payment to the Facility Agent under the Finance Documents, either:
- (a) the Facility Agent fails to respond to a request under Clause 11.9 (*FATCA Information*) and the Borrower or a Lender reasonably believes that the Facility Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date;
 - (b) the information supplied by the Facility Agent pursuant to Clause 11.9 (*FATCA Information*) indicates that the Facility Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date; or
 - (c) the Facility Agent notifies the Borrower and the Lenders that the Facility Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date;

and (in each case) the Borrower or a Lender reasonably believes that a Party will be required to make a FATCA Deduction that would not be required if the Facility Agent were a FATCA Exempt Party, and the Borrower or that Lender, by notice to the Facility Agent, requires it to resign.

20.13 Replacement of the Facility Agent

- 20.13.1 After consultation with the Borrower, the Majority Lenders may, by giving 30 days' notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).

- 20.13.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.
- 20.13.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 20.13 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).
- 20.13.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

20.14 Confidentiality

- 20.14.1 In acting as agent for the Finance Parties, the Facility Agent shall be regarded as acting through its agency division which shall be treated as a separate entity from any other of its divisions or departments.
- 20.14.2 If information is received by another division or department of the Facility Agent, it may be treated as confidential to that division or department and the Facility Agent shall not be deemed to have notice of it.

20.15 Relationship with the Lenders

- 20.15.1 The Facility Agent may treat the person shown in its records as Lender at the opening of business (in the place of the Facility Agent's principal office as notified to the Finance Parties from time to time) as the Lender acting through its Facility Office:
- (a) entitled to or liable for any payment due under any Finance Document on that day; and
 - (b) entitled to receive and act upon any notice, request, document or communication or make any decision or determination under any Finance Document made or delivered on that day,
- unless it has received not less than five Business Days' prior notice from that Lender to the contrary in accordance with the terms of this Agreement.
- 20.15.2 Any Lender may by notice to the Facility Agent appoint a person to receive on its behalf all notices, communications, information and documents to be made or despatched to that Lender under the Finance Documents. Such notice shall contain the address, fax number and (where communication by electronic mail or other electronic means is permitted under Clause 34.4 (*Electronic communication*))
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electronic mail address and/or any other information required to enable the transmission of information by that means (and, in each case, the department or officer, if any, for whose attention communication is to be made) and be treated as a notification of a substitute address, fax number, electronic mail address (or such other information), department and officer by that Lender for the purposes of Clause 34.2 (*Contact Details*) and paragraph (b) of sub-clause 34.4.1 and the Facility Agent shall be entitled to treat such person as the person entitled to receive all such notices, communications, information and documents as though that person were that Lender.

20.16 Credit appraisal by the Lenders

Without affecting the responsibility of the Borrower for information supplied by it or on its behalf in connection with any Finance Document, each Lender confirms to the Facility Agent and the Arranger that it has been, and will continue to be, solely responsible for making its own independent appraisal and investigation of all risks arising under or in connection with any Finance Document including but not limited to:

- 20.16.1 the financial condition, status and nature of each member of the Group;
- 20.16.2 the legality, validity, effectiveness, adequacy or enforceability of any Finance Document and any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document;
- 20.16.3 whether that Lender has recourse, and the nature and extent of that recourse, against any Party or any of its respective assets under or in connection with any Finance Document, the transactions contemplated by the Finance Documents or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document; and
- 20.16.4 the adequacy, accuracy or completeness of any information provided by the Facility Agent, any Party or by any other person under or in connection with any Finance Document, the transactions contemplated by any Finance Document or any other agreement, arrangement or document entered into, made or executed in anticipation of, under or in connection with any Finance Document.

20.17 Facility Agent's management time

Any amount payable to the Facility Agent under Clause 24.2.3 (*Indemnity to the Facility Agent*), Clause 25 (*Expenses*) and Clause 20.11 (*Lenders' indemnity to the Facility Agent*) shall include the cost of utilising the Facility Agent's management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the Borrower and the Lenders, and is in addition to any fee paid or payable to the Facility Agent under Clause 23 (*Fees*).

20.18 Deduction from amounts payable by the Facility Agent

If any Party owes an amount to the Facility Agent under the Finance Documents the Facility Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the Facility Agent would otherwise be obliged to

make under the Finance Documents and apply the amount deducted in or towards satisfaction of the amount owed. For the purposes of the Finance Documents that Party shall be regarded as having received any amount so deducted.

21. CONDUCT OF BUSINESS BY THE FINANCE PARTIES

No provision of this Agreement will:

- 21.1.1 interfere with the right of any Finance Party to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- 21.1.2 oblige any Finance Party to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim; or
- 21.1.3 oblige any Finance Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

22. EVIDENCE AND CALCULATIONS

22.1 Accounts

Accounts maintained by a Finance Party in connection with this Agreement are *prima facie* evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

22.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

2.3 Calculations

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 365 days or otherwise, depending on what the Facility Agent determines is market practice.

23. FEES

23.1 Agency fee

The Borrower must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Borrower.

23.2 Upfront fees

The Borrower must pay the upfront fees in the manner agreed between the relevant Administrative Parties and the Borrower.

23.3 Commitment fee

- 23.3.1 The Borrower must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.
- 23.3.2 The commitment fee is payable quarterly in arrear during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.
- 23.3.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

24. OTHER INDEMNITIES

24.1 Currency indemnity

- 24.1.1 The Borrower must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

- (a) that Finance Party receiving an amount in respect of the Borrower's liability under the Finance Documents; or
- (b) that liability being converted into a claim, proof, judgment or order;

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

- 24.1.2 Unless otherwise required by law, the Borrower waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

24.2 Other indemnities

The Borrower shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

- 24.2.1 the occurrence of any Event of Default;
- 24.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or
- 24.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Borrower otherwise than on the Final Maturity Date or, in the case of an overdue sum, the last day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

24.3 Indemnity to the Facility Agent

The Borrower shall promptly indemnify the Facility Agent against any cost, loss or liability incurred by the Facility Agent (acting reasonably) as a result of:

- 24.3.1 investigating any event which it reasonably believes is a Default;
- 24.3.2 acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised; or
- 24.3.3 instructing lawyers, accountants, tax advisers, surveyors or other professional advisers or experts as permitted under this Agreement.

25. EXPENSES

25.1 Initial costs

The Borrower must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

25.2 Subsequent costs

The Borrower must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

- 25.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Assignment Agreement) executed after the date of this Agreement; and
- 25.2.2 any amendment, waiver or consent requested by or on behalf of the Borrower or specifically allowed by this Agreement.

25.3 Enforcement costs

The Borrower must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

26. AMENDMENTS AND WAIVERS

26.1 Procedure

- 26.1.1 Except as provided in this Clause 26, any term of the Finance Documents may be amended or waived with the agreement of the Borrower and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.
- 26.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 26.1.1 above. Any such amendment or waiver is binding on all the Parties.

26.1.3 Sub-clause 27.9.3 (*Pro rata interest settlement*) shall apply to this Clause 26.

26.2 Exceptions

26.2.1 An amendment or waiver that has the effect of changing or which relates to:

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (c) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (d) an increase in a Commitment or the Total Commitments, an extension of the Availability Period or any requirement that a cancellation of Commitments reduces the Commitments of the Lenders rateably under the Facility;
- (e) a term of a Finance Document which expressly requires the consent of each Lender;
- (f) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (g) Clause 7.1 (*Mandatory prepayment – illegality*), Clause 7.2 (*Mandatory prepayment – change of control*), sub-clause 7.3.3 of Clause 7.3 (*Voluntary prepayment*) or Clause 31 (*Pro rata sharing*);
- (h) Clause 15.20 (*Sanctions*) or 18.18 (*Sanctions*); or
- (i) this Clause 26 (*Amendments and Waivers*), Clause 36 (*Governing law*) or Clause 37 (*Enforcement*),

may only be made with the consent of all the Lenders.

26.3 Other exceptions

An amendment or waiver which relates to the rights or obligations of the Facility Agent or the Arranger (each in their capacity as such) may not be effected without the consent of the Facility Agent or the Arranger, as the case may be.

26.4 Disenfranchisement of Defaulting Lenders

26.4.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitment.

26.4.2 For the purposes of this Clause 26.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

26.5 Replacement of a Defaulting Lender

26.5.1 The Borrower may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender, replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 27 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to an Eligible Institution (a "**Replacement Lender**") which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 27.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

26.5.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Borrower shall have no right to replace the Facility Agent;
 - (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Borrower to find a Replacement Lender;
 - (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 26.5.1 above; and
 - (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents.
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26.6 Change of currency

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Borrower) determines is necessary to reflect the change.

26.7 Waivers and remedies cumulative

No failure to exercise, nor any delay in exercising, on the part of any Finance Party, any right or remedy under a Finance Document shall operate as a waiver of any such right or remedy or constitute an election to affirm any of the Finance Documents. No election to affirm any Finance Document on the part of any Finance Party shall be effective unless it is in writing. No single or partial exercise of any right or remedy shall prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in each Finance Document are cumulative and not exclusive of any rights or remedies provided by law.

27. CHANGES TO THE PARTIES

27.1 Assignments and transfers by the Borrower

The Borrower may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

27.2 Assignments and transfers by Lenders

27.2.1 A Lender (the "**Existing Lender**") may, subject to the following provisions of this Clause 27, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the "**New Lender**").

27.2.2 Unless the Borrower and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.

27.2.3 An Existing Lender must consult with the Borrower for no more than five Business Days before it may make an assignment or transfer unless:

- (a) the New Lender is another Lender or an Affiliate of a Lender; or
- (b) an Event of Default has occurred and is outstanding.

27.2.4 The Facility Agent is not obliged to execute a Transfer Certificate or Assignment Agreement until it has completed all "know your customer requirements" to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.

- 27.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:
- (a) the obligations are novated in accordance with the following provisions of this Clause 27; or
 - (b) the New Lender confirms to the Facility Agent and the Borrower in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are transferred to, or assigned to and assumed by, the New Lender.
- 27.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £1,750.
- 27.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

27.3 Procedure for transfer by way of novations

- 27.3.1 A novation is effected if:
- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
 - (b) the Facility Agent executes it.

Subject to sub-clause 27.2.4 of Clause 27.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

- 27.3.2 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.
- 27.3.3 Subject to Clause 27.9 (*Pro rata interest settlement*), on the Transfer Date:
- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
 - (b) the Existing Lender will be released from those obligations and cease to have those rights.

27.4 Procedure for assignment

- 27.4.1 Subject to the conditions set out in Clause 27.2 (*Assignment and transfers by Lenders*), an assignment may be effected in accordance with sub-clause 27.4.2 below when the Facility Agent executes an otherwise duly completed Assignment

Agreement delivered to it by the Existing Lender and the New Lender. The Facility Agent shall, subject to sub-clause 27.2.4, as soon as reasonably practicable after receipt by it of a duly completed Assignment Agreement appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Assignment Agreement.

27.4.2 Subject to Clause 27.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the Existing Lender will assign absolutely to the New Lender the rights under the Finance Documents expressed to be the subject of the assignment in the Assignment Agreement;
- (b) the Existing Lender will be released by the Borrower and the other Finance Parties from the obligations owed by it (the "**Relevant Obligations**") and expressed to be the subject of the release in the Assignment Agreement; and
- (c) the New Lender shall become a Party as a "Lender" and will be bound by obligations equivalent to the Relevant Obligations.

27.4.3 Lenders may utilise procedures other than those set out in this Clause 27.4 to assign their rights under the Finance Documents (but not, without the consent of the Borrower or unless in accordance with Clause 27.4 (*Procedure for transfer by way of novation*), to obtain a release by the Borrower from the obligations owed to the Borrower by the Lenders nor the assumption of equivalent obligations by a New Lender) provided that they comply with the conditions set out in Clause 27.2 (*Assignments and transfers by Lenders*).

27.5 Limitation of responsibility of Existing Lender

27.5.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

27.5.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Borrower and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and

- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

27.5.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
- (b) support any losses incurred by the New Lender by reason of the non-performance by the Borrower of its obligations under any Finance Document or otherwise.

27.6 Costs resulting from change of Lender or Facility Office

27.6.1 If:

- (a) a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and
- (b) as a result of circumstances existing at the date the assignment, transfer or change occurs, the Borrower would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 11 (*Tax gross-up and indemnities*) or Clause 12 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred.

27.6.2 This Clause 27.6 shall not apply in relation to Clause 11.2 (*Tax gross-up*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 11.6.1 of Clause 11.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Borrower making the payment has not complied with its obligations under sub-clause 11.6.2 of Clause 11.6 (*HMRC DT Treaty Passport scheme confirmation*).

27.7 Copy of Transfer Certificate, Assignment Agreement or Increase Confirmation to Borrower

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate, Assignment Agreement or an Increase Confirmation, send to the Borrower a copy of that Transfer Certificate, Assignment Agreement or Increase Confirmation.

27.8 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 27, each Lender may without consulting with or obtaining consent from the Borrower, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

27.8.1 any charge, assignment or other security to secure obligations to a federal reserve, central bank, governmental authority, agency or department (including Her Majesty's Treasury); and

27.8.2 any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or security shall:

- (a) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (b) require any payments to be made by the Borrower or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

27.9 Pro rata interest settlement

27.9.1 If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a "*pro rata basis*" to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 27.3 (*Procedure for transfer by way of novations*) or any assignment pursuant to Clause 27.4 (*Procedure for assignment*) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

- (a) any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date ("**Accrued Amounts**") and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and
- (b) the rights transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable to the Existing Lender; and
 - (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 27.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

27.9.2 In this Clause 27.9 references to "Term" shall be construed to include a reference to any other period for accrual of fees.

27.9.3 An Existing Lender which retains the right to the Accrued Amounts pursuant to this Clause 27.9 but which does not have a Commitment shall be deemed not to be a Lender for the purposes of ascertaining whether the agreement of any specified group of Lenders has been obtained to approve any request for a consent, waiver, amendment or other vote of Lenders under the Finance Documents.

27.10 Disenfranchisement of Debt Purchase Transactions entered into by Relevant Persons

27.10.1 For so long as a Holding Company of the Borrower or any of such Holding Company's Affiliates other than a member of the Group (a "**Relevant Person**") (i) beneficially owns a Commitment or (ii) has entered into a sub-participation agreement relating to a Commitment or other agreement or arrangement having a substantially similar economic effect and such agreement or arrangement has not been terminated:

- (a) in ascertaining the Majority Lenders or whether any given percentage (including for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents such Commitment shall be deemed to be zero; and
- (b) for the purposes of Clause 26.2 (*Exceptions*), such Relevant Person or the person with whom it has entered into such sub-participation, other agreement or arrangement shall be deemed not to be a Lender (unless in the case of a person not being a Relevant Person it is a Lender by a virtue otherwise than by beneficially owning the relevant Commitment).

27.10.2 Each Lender shall, unless such Debt Purchase Transaction is an assignment or transfer, promptly notify the Facility Agent in writing if it knowingly enters into a Debt Purchase Transaction with a Relevant Person (a "**Notifiable Debt Purchase Transaction**"), such notification to be substantially in the form set out in Part I of Schedule 9 (*Forms of Notifiable Debt Purchase Transaction Notice*).

27.10.3 A Lender shall promptly notify the Facility Agent if a Notifiable Debt Purchase Transaction to which it is a party:

- (a) is terminated; or
- (b) ceases to be with a Relevant Person,

such notification to be substantially in the form set out in Part II of the Schedule 9 (*Forms of Notifiable Debt Purchase Transaction Notice*).

27.10.4 Each Relevant Person that is a Lender agrees that:

- (a) in relation to any meeting or conference call to which all the Lenders are invited to attend or participate, it shall not attend or participate in the same if so requested by the Facility Agent or, unless the Facility Agent otherwise agrees, be entitled to receive the agenda or any minutes of the same; and

- (b) in its capacity as Lender, unless the Facility Agent otherwise agrees, it shall not be entitled to receive any report or other document prepared at the request of, or on the instructions of, the Facility Agent or one or more of the Lenders.

28. CONFIDENTIALITY AND DISCLOSURE OF INFORMATION

28.1 Confidential Information

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 28.2 (*Disclosure of Confidential Information*) and Clause 28.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

28.2 Disclosure of Confidential Information

Any Finance Party may disclose:

- 28.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 28.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;
 - 28.2.2 to any person:
 - (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent, and in each case to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Borrower and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
 - (c) appointed by any Finance Party or by a person to whom paragraphs (a) or (b) of sub-clause 28.2.2 above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
-

- (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in paragraphs (a) or (b) of sub-clause 28.2.2 above;
- (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 27.8 (*Security over Lenders' rights*);
- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Borrower;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to paragraphs (a), (b) and (c) of sub-clause 28.2.2 above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
- (ii) in relation to paragraph (d) of sub-clause 28.2.2 above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
- (iii) in relation to paragraphs (e), (f) and (g) of sub-clause 28.2.2 above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;

28.2.3 to any person appointed by that Finance Party or by a person to whom paragraph (a) or (b) of sub-clause 28.2.2 above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance

Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 28.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Borrower and the relevant Finance Party; and

- 28.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to carry out its normal rating activities in relation to the Finance Documents and/or the Borrower if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

28.3 Disclosure to numbering service providers

28.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Borrower the following information:

- (a) name of the Borrower;
- (b) country of domicile of the Borrower;
- (c) place of incorporation of the Borrower;
- (d) date of this Agreement;
- (e) Clause 37 (*Governing Law*);
- (f) the names of the Facility Agent and the Arranger;
- (g) date of each amendment and restatement of this Agreement;
- (h) amount of Total Commitments;
- (i) currency of the Facility;
- (j) type of the Facility;
- (k) ranking of Facility;
- (l) Final Maturity Date for the Facility;
- (m) changes to any of the information previously supplied pursuant to paragraphs (a) to (l) above; and
- (n) such other information agreed between such Finance Party and the Borrower,

to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

- 28.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Borrower by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.
- 28.3.3 The Borrower represents that none of the information set out in paragraphs (a) to (n) of sub-clause 28.3:1 above is, nor will at any time be, unpublished price-sensitive information.
- 28.3.4 The Facility Agent shall notify the Borrower and the other Finance Parties of:
- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Borrower; and
 - (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Borrower by such numbering service provider.

29. CONFIDENTIALITY OF FUNDING RATES

29.1 Confidentiality and disclosure

- 29.1.1 The Facility Agent and the Borrower agree to keep each Funding Rate confidential and not to disclose it to anyone, save to the extent permitted by sub-clauses 29.1.2 and 29.1.3 below.
- 29.1.2 The Facility Agent may disclose:
- (a) any Funding Rate to the Borrower pursuant to Clause 8.4 (*Notification of rates of interest*); and
 - (b) any Funding Rate to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Facility Agent and the relevant Lender.
- 29.1.3 The Facility Agent and the Borrower may disclose any Funding Rate to:
- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives if any person to whom that Funding Rate is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so

inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or is otherwise bound by requirements of confidentiality in relation to it;

- (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the Borrower it is not practicable to do so in the circumstances;
- (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the Borrower it is not practicable to do so in the circumstances; and
- (d) any person with the consent of the relevant Lender.

29.2 Related obligations

29.2.1 The Facility Agent and the Borrower acknowledge that each Funding Rate is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and the Borrower undertake not to use any Funding Rate for any unlawful purpose.

29.2.2 The Facility Agent and the Borrower agree (to the extent permitted by law and regulation) to inform the relevant Lender:

- (a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 29.1.3 except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
- (b) upon becoming aware that any information has been disclosed in breach of this Clause 29.

29.3 No Event of Default

No Event of Default will occur under Clause 19.3 (*Breach of other obligations*) by reason only of the Borrower's failure to comply with this Clause 29.

30. SET-OFF

A Finance Party may set off any matured obligation owed to it by the Borrower under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

31. PRO RATA SHARING

31.1 Payments to Finance Parties

If a Finance Party (a "**Recovering Finance Party**") receives or recovers any amount from the Borrower other than in accordance with Clause 14 (*Payments*) (a "**Recovery**") and applies that amount to a payment due under the Finance Documents then:

- 31.1.1 the Recovering Finance Party must, within three Business Days, supply details of the Recovery to the Facility Agent;
- 31.1.2 the Facility Agent must calculate whether the receipt or recovery is in excess of the amount which the Recovering Finance Party would have received if the receipt or recovery had been received or made by the Facility Agent and distributed in accordance with Clause 14 (*Payments*), without taking account of any Tax which would have been imposed on the Facility Agent in relation to the receipt, recovery or redistribution; and
- 31.1.3 the Recovering Finance Party shall, within three Business Days of demand by the Facility Agent, pay to the Facility Agent an amount (the "**Redistribution**") equal to such receipt or recovery less any amount which the Facility Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 14.8 (*Partial payments*).

31.2 Redistribution of payments

The Facility Agent shall treat the Redistribution as if it had been paid by the Borrower and distribute it between the Finance Parties (other than the Recovering Finance Party) (the "**Sharing Finance Parties**") in accordance with Clause 14.8 (*Partial payments*) towards the obligations of the Borrower to the Sharing Finance Parties.

31.3 Recovering Finance Party's rights

On a distribution by the Facility Agent under Clause 31.2 (*Redistribution of payments*) of a payment received by a Recovering Finance Party from the Borrower, as between the Borrower and the Recovering Finance Party, an amount of the Recovery equal to the Redistribution will be treated as not having been paid by the Borrower.

31.4 Reversal of Redistribution

If any part of the Redistribution received or recovered by a Recovering Finance Party becomes repayable and is repaid by that Recovering Finance Party, then:

31.4.1 each Sharing Finance Party shall, upon request of the Facility Agent, pay to the Facility Agent for the account of that Recovering Finance Party an amount equal to the appropriate part of its share of the Redistribution (together with an amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Redistribution which that Recovering Finance Party is required to pay) (the "**Redistributed Amount**"); and

31.4.2 as between the Borrower and each relevant Sharing Finance Party, an amount equal to the relevant Redistributed Amount will be treated as not having been paid by the Borrower.

31.5 **Exceptions**

31.5.1 This Clause 31 shall not apply to the extent that the Recovering Finance Party would not, after making any payment pursuant to this Clause, have a valid and enforceable claim against the Borrower.

31.5.2 A Recovering Finance Party is not obliged to share with any other Finance Party any amount which the Recovering Finance Party has received or recovered as a result of legal or arbitration proceedings, where:

(a) the Recovering Finance Party notified the Facility Agent of those proceedings; and

(b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

32. **SEVERABILITY**

If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

32.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

32.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

33. **COUNTERPARTS**

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

34. **NOTICES**

34.1 **In writing**

34.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given in person, by post or (in respect of any Party other than the Borrower) by fax.

34.1.2 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

34.2 Contact details

34.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

34.2.2 The contact details of the Borrower for this purpose are:

Address: Western Power Distribution plc
Avonbank
Feeder Road
Bristol BS2 0TB

Tel: 44 117 933 2374

E-mail: wpdtreasuryconfirms@westernpower.co.uk

Attention: Treasury Team

The contact details of the Facility Agent for this purpose are:

Address: Mizuho Bank, Ltd.
30 Old Bailey
London
EC4M 7AU

Tel: +44 (0) 207 012 4703

Fax number: +44 (0) 203 147 4118

E-mail: loanagency@mhcb.co.uk

Attention: Agency Department

34.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

34.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

34.3 Effectiveness

34.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;
- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and

(c) if by fax, when received in legible form.

34.3.2 A communication given under sub-clause 34.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

34.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

34.4 **Electronic communication**

34.4.1 Any communication to be made between any two Parties under or in connection with the Finance Documents may be made by electronic mail or other electronic means (including, without limitation, by way of posting to a secure website) if those two Parties:

- (a) notify each other in writing of their electronic mail address and/or any other information required to enable the transmission of information by that means; and
- (b) notify each other of any change to their address or any other such information supplied by them by not less than five Business Days' notice.

34.4.2 Any such electronic communication as specified in sub-clause 34.4.1 above to be made between the Borrower and a Finance Party may only be made in that way to the extent that those two Parties agree that, unless and until notified to the contrary, this is to be an accepted form of communication.

34.4.3 Any such electronic communication as specified in sub-clause 34.4.1 above made between any two Parties will be effective only when actually received (or made available) in readable form and in the case of any electronic communication made by a Party to the Facility Agent only if it is addressed in such a manner as the Facility Agent shall specify for this purpose.

34.4.4 Any electronic communication which becomes effective, in accordance with sub-clause 34.4.3 above, after 5:00 p.m. in the place in which the Party to whom the relevant communication is sent or made available has its address for the purpose of this Agreement shall be deemed only to become effective on the following day.

34.4.5 Any reference in a Finance Document to a communication being sent or received shall be construed to include that communication being made available in accordance with this Clause 34.4.

34.5 **The Borrower**

All formal communication under the Finance Documents to or from the Borrower must be sent through the Facility Agent.

34.6 **Communication when Facility Agent is Impaired Agent**

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

35. LANGUAGE

35.1.1 Any notice given in connection with a Finance Document must be in English.

35.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

36. GOVERNING LAW

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

37. ENFORCEMENT

37.1 Jurisdiction

37.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

37.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Borrower waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

37.1.3 Notwithstanding sub-clause 37.1.1 above, no Finance Party shall be prevented from taking proceedings in any other courts with jurisdiction. To the extent allowed by law, the Finance Parties may take concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment (£)	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
HSBC Bank plc	65,000,000	N/A
Mizuho Bank, Ltd.	65,000,000	N/A
Total	£130,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT

The Borrower

1. A certified copy of the constitutional documents of the Borrower.
2. A certified copy of a resolution of the board of directors or a committee of the board of directors of the Borrower approving the terms of, and the transactions contemplated by, the Finance Documents.
3. A specimen of the signature of each person authorised on behalf of the Borrower to execute or witness the execution of any Finance Document or to sign or send any document or notice in connection with any Finance Document.
4. A certificate of the Borrower (signed by a director) confirming that borrowing the Total Commitments would not cause any borrowing limit binding on the Borrower to be exceeded.
5. A certificate of an authorised signatory of the Borrower certifying that each copy document relating to it specified in this Schedule 2 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.

Legal opinions

6. A legal opinion of Clifford Chance LLP, legal advisers to the Arranger and the Facility Agent addressed to the Finance Parties.

Other documents and evidence

7. Duly signed copies of each Finance Document.

Evidence that all fees and expenses then due and payable from the Borrower under this Agreement have been or will be paid no later than the first Drawdown Date.
 9. The Original Financial Statements.
-

**SCHEDULE 3
REQUESTS**

**PART I
REQUEST**

To: Mizuho Bank, Ltd. as Facility Agent

From: Western Power Distribution plc

Date: [•]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
 2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [•]
 - (b) Amount: [•]
 - (c) Term: [•]
- Our payment instructions are: [•]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
 5. The proceeds of this Loan should be credited to [account].
 6. We confirm that as at [relevant testing date] Consolidated EBITDA for the Measurement Period ending on such date was [•] and Interest Payable was [•]; therefore, the ratio of Consolidated EBITDA to Interest Payable for the Measurement Period ending on such date was [•] to 1.
 7. We confirm that as at [relevant testing date] Regulatory Asset Value was [•] and Total Net Debt was [•]; therefore, Total Net Debt does not exceed an amount equal to 87.5% of the Regulatory Asset Value.
 8. This Request is irrevocable.

By:

WESTERN POWER DISTRIBUTION PLC

**PART II
SELECTION NOTICE**

From: Western Power Distribution plc
To: Mizuho Bank, Ltd. as Facility Agent
Dated:

Dear Sirs

Western Power Distribution plc – £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to the Agreement. This is a Selection Notice. Terms defined in the Agreement have the same meaning in this Selection Notice unless given a different meaning in this Selection Notice.
2. We refer to the following Loan(s) with a Term ending on [•].*
3. [We request that the above Loan[s] be divided into [•] Loans with the following Terms:]**
or
[We request that the next Term for the above Loan[s] is [•]].***
4. This Selection Notice is irrevocable.

Yours faithfully

Authorised signatory for and on behalf of
Western Power Distribution plc

* Insert details of all Loans which have a Term ending on the same date.

** Use the option if division of Loans is requested.

*** Use the option if sub-division is not required.

SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: Mizuho Bank, Ltd. as Facility Agent

From: [THE EXISTING LENDER] (the "Existing Lender") and [THE NEW LENDER] (the "New Lender")

Date: [•]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

We refer to the Agreement. This is a Transfer Certificate.

1. The Existing Lender transfers by novation to the New Lender all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement referred to in the Schedule below in accordance with the terms of the Agreement.
2. The proposed Transfer Date is [•].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Borrower, that it is:
 - (a) [a Qualifying Lender (other than a Treaty Lender);]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or

- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.]**
6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Borrower) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•]*** so that interest payable to it by the Borrower is generally subject to full exemption from UK withholding tax and notifies the Borrower that the Borrower must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****
7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 11.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

By:

[NEW LENDER]

By:

The Transfer Date is confirmed by the Facility Agent as [•].

[•]

By:

SCHEDULE 5
FORM OF ASSIGNMENT AGREEMENT

To: Mizuho Bank, Ltd. as Facility Agent

From: [THE EXISTING LENDER] (the "Existing Lender") and [THE NEW LENDER] (the "New Lender")

Date: [•]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to the Agreement. This is an Assignment Agreement. Terms defined in the Agreement have the same meaning in this Assignment Agreement unless given a different meaning in this Assignment Agreement.
 2. We refer to Clause 27.4 (*Procedure for assignment*) of the Agreement:
 - (a) The Existing Lender assigns absolutely to the New Lender all the rights of the Existing Lender under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement as specified in the Schedule.
 - (b) The Existing Lender is released from all the obligations of the Existing Lender which correspond to that portion of the Existing Lender's Commitment and participations in Loans under the Agreement specified in the Schedule.
 - (c) The New Lender becomes a Party as a Lender and is bound by obligations equivalent to those from which the Existing Lender is released under paragraph (b) above.
 3. The proposed Transfer Date is [].
 4. On the Transfer Date the New Lender becomes Party to the Finance Documents as a Lender.
 5. The Facility Office and address, fax number and attention details for notices of the New Lender for the purposes of Clause 34.2 (*Contact Details*) of the Agreement are set out in the Schedule.
 6. The New Lender expressly acknowledges the limitations on the Existing Lender's obligations set out in Clause 27.5 (*Limitation of Existing Lender*) of the Agreement.
 7. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Borrower, that it is:
 - (a) [a Qualifying Lender (other than a Treaty Lender);]
 - (b) [a Treaty Lender;]
-

- (c) [not a Qualifying Lender].*
8. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**
9. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Borrower) that it holds a passport under the HMRC DT Treaty passport scheme (reference number [•]) and is tax resident in [•]***, so that interest payable to it by the Borrower is generally subject to full exemption from UK withholding tax and notifies the Borrower that the Borrower must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****
10. This Assignment Agreement acts as notice to the Facility Agent (on behalf of each Finance Party) and, upon delivery in accordance with Clause 27.7 (*Copy of Transfer Certificate, Assignment Agreement or Increase Confirmation to Borrower*) of the Agreement, to the Borrower of the assignment referred to in this Assignment Agreement.
11. This Assignment Agreement may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Assignment Agreement.
12. This Assignment Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.
13. This Assignment Agreement has been entered into on the date stated at the beginning of this Assignment Agreement.

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 11.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

THE SCHEDULE

Rights to be assigned and obligations to be released and undertaken

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Existing Lender]

[New Lender]

y:

By:

This Assignment Agreement is accepted by the Facility Agent and the Transfer Date is confirmed as [].

Signature of this Assignment Agreement by the Facility Agent constitutes confirmation by the Facility Agent of receipt of notice of the assignment referred to herein, which notice the Facility Agent receives on behalf of each Finance Party.

[Facility Agent]

By:

**SCHEDULE 6
FORM OF COMPLIANCE CERTIFICATE**

To: Mizuho Bank, Ltd. as Facility Agent

From: Western Power Distribution plc

Date: [•]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to the Agreement. This is a Compliance Certificate.
2. We confirm that as at [*relevant testing date*], Consolidated EBITDA for the Measurement Period ending on such date was [•] and Interest Payable was [•], therefore the ratio of Consolidated EBITDA to Interest Payable for the Measurement Period ending on such date was [•] to 1.
3. We confirm that as at [*relevant testing date*], Regulatory Asset Value was [•] and Total Net Debt was [•]; therefore Total Net Debt does not exceed 87.5% of the Regulatory Asset Value.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:

[•].
5. [We confirm that no Default is outstanding as at [*relevant testing date*].]¹

WESTERN POWER DISTRIBUTION PLC

By:

Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

SCHEDULE 7
FORM OF INCREASE CONFIRMATION

To: Mizuho Bank, Ltd. as Facility Agent, and Western Power Distribution plc as Borrower

From: [the *Increase Lender*] (the "**Increase Lender**")

Dated: [•]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
 2. We refer to Clause 2.2 (*Increase*) of the Agreement.
 3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the "**Relevant Commitment**") as if it had been an Original Lender under the Agreement in respect of the Relevant Commitments.
 4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the "**Increase Date**") is [•].
 5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
 6. The Facility Office and address, fax number and attention details for notices to the Increase Lender for the purposes of Clause 34 (*Notices*) of the Agreement are set out in the Schedule.
 7. The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in Clause 2.2 (*Increase*) of the Agreement.
 8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Borrower, that it is:
 - (a) [a Qualifying Lender (other than a Treaty Lender);]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
 9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
-

- (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA 2009) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA 2009; or
 - (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA 2009) of that company.]**
10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Borrower) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Borrower is generally subject to full exemption from UK withholding tax and notifies the Borrower that the Borrower must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****
11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.

NOTES:

- * Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.
- ** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 11.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [•].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 8
TIMETABLES**

Delivery of a duly completed Request in accordance with Clause **Initial Request**
5.1 (*Giving of Requests*) or a Selection Notice (Clause 10.1
(*Selection*))

D

8:30am

Further Requests

D -1

10:00am

Facility Agent notifies the Lenders of the Loan in accordance with **Initial Request**
Clause 5.4 (*Advance of Loan*)

D

8:30am

Further Requests

D -1

4:00pm

LIBOR is fixed

Rate Fixing Day as of 11:00am

"D" = date of drawdown or, if applicable, in the case of a Loan that has already been borrowed, the first day of the relevant Term for that Loan.

"D- X"= Business Days prior to date of drawdown.

SCHEDULE 9
FORMS OF NOTIFIABLE DEBT PURCHASE TRANSACTION NOTICE

PART I
FORM OF NOTICE ON ENTERING INTO NOTIFIABLE DEBT PURCHASE TRANSACTION

To: [] as Facility Agent

From: [The Lender]

Dated:

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [•] 2018 (the "Agreement")

1. We refer to sub-clause 27.10.2 of Clause 27.10 (*Disenfranchisement of Debt Purchase Transactions entered into by Relevant Persons*) of the Agreement. Terms defined in the Agreement have the same meaning in this notice unless given a different meaning in this notice.
2. We have entered into a Notifiable Debt Purchase Transaction.
3. The Notifiable Debt Purchase Transaction referred to in paragraph 2 above relates to [*insert amount (of that Commitment) to which the relevant Debt Purchase Transaction applies*]

[Lender]

y:

PART II

FORM OF NOTICE ON TERMINATION OF NOTIFIABLE DEBT PURCHASE TRANSACTION/NOTIFIABLE DEBT PURCHASE TRANSACTION CEASING TO BE WITH RELEVANT PERSON

To: [] as Agent

From: [The Lender]

Dated:

**Western Power Distribution plc - £130,000,000 Term Facility Agreement
dated [•] 2018 (the "Agreement")**

1. We refer to sub-clause 27.10.3 of Clause 27.10 (*Disenfranchisement of Debt Purchase Transactions entered into by Relevant Persons*) of the Agreement. Terms defined in the Agreement have the same meaning in this notice unless given a different meaning in this notice.
2. A Notifiable Debt Purchase Transaction which we entered into and which we notified you of in a notice dated [•] has [terminated]/[ceased to be with a Relevant Person].
3. The Notifiable Debt Purchase Transaction referred to in paragraph 2 above relates to [*insert amount (of that Commitment) to which the relevant Debt Purchase Transaction applies*]

[Lender]

By:

**SCHEDULE 10
FORM OF SUBORDINATION DEED**

THIS SUBORDINATION DEED is entered into as a deed on [] and is made **BETWEEN:**

- (1) **WESTERN POWER DISTRIBUTION PLC** (registered number 09223384) (the **Company**);
- (2) **[SUBORDINATED CREDITOR]** (the **Subordinated Creditor**); and
- (3) **MIZUHO BANK, LTD.**, as Facility Agent acting on behalf of the Lenders (each as defined below) (the **Facility Agent**).

1. INTERPRETATION

1.1 Definitions

In this Deed:

Agreement means the £130,000,000 Term Facility Agreement dated [●] 2018 between, amongst others, Western Power Distribution plc as the Company and Mizuho Bank, Ltd. as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document,

provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 17 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any

commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in Annex 1 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [●].

1.2 Construction

- (a) Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.
- (b) The principles of construction set out in the Agreement will have effect as if set out in this Deed.
- (c) Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

- (a) make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or
- (b) secure, in any manner, all or any part of the Subordinated Debt; or
- (c) defease, in any manner, all or any part of the Subordinated Debt; or
- (d) give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or

- (e) procure any other person to do any of the acts or take any of the actions referred to paragraphs (a) to (d) above.

2.3 Undertakings of the Subordinated Creditor

- (a) The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (i) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
 - (ii) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
 - (b) The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
 - (c) The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (i) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
 - (ii) initiate or support or take any steps with a view to, or which may lead to:
 - (A) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (B) any voluntary arrangement or assignment for the benefit of creditors; or
 - (C) any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
 - (iii) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
 - (iv) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).
 - (d) If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.
-

- (e) The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in Clause 19.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

- (a) the Subordinated Debt shall continue to be subordinated to the Senior Debt;
- (b) any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the "**rights**") made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;
- (c) if the trust referred to in paragraph (b) above or paragraph (d) of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- (d) the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph (b) above and give acquittance therefore and to file claims and take such other proceedings, in the Facility Agent's own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and
- (e) the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph (b) above or to do anything

which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. SET-OFF

- (a) The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.
- (b) If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph (b) of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. NEW MONEY

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. PROTECTION OF SUBORDINATION

- (a) The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.
- (b) Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

MISCELLANEOUS

- (a) This Deed overrides anything in any Subordinated Finance Document to the contrary.
- (b) Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.
- (c) This Deed is a Finance Document.

7. ASSIGNMENT

- (a) The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.

- (b) The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. TRUSTS

The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.

9. TERMINATION

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. GOVERNING LAW

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. JURISDICTION

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: **MIZUHO BANK, LTD.**, as Facility Agent acting on behalf of the Lenders.

To: **WESTERN POWER DISTRIBUTION PLC**

From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the "**Acceding Subordinated Creditor**") in relation to the subordination deed (the "**Subordination Deed**") dated [•] between, among others, Western Power Distribution plc. as Company, Mizuho Bank, Ltd. as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

his Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION PLC**)
acting by)

Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Company contact details:

- Address: [•]
- Fax number: [•]
- Phone number: [•]
- E-mail: [•]
- Attention: [•]

Acceding Subordinated Creditor

EXECUTED as a DEED)
by **[ACCEDING SUBORDINATED CREDITOR]**)
acting by)

Director

In the presence of:

Witness's Signature

Name:

Address:

Subordinated Creditor contact details:

Address:

Fax number:

Phone number:

E-mail:

Attention:

Facility Agent

EXECUTED as a DEED)
by **MIZUHO BANK, LTD.**)
acting by)

Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Facility Agent contact details:

Address: 30 Old Bailey
London
EC4M 7AU
Fax number: 44 0 203 147 4118
Phone number: 44 207 012 4703
E-mail: loanagency@mhcb.co.uk
Attention: Agency Department

Annex 2
Form of Certificate

To: Mizuho Bank, Ltd. as Facility Agent

From: [Western Power Distribution plc]

Date: [●]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [●] 2018 (the "Agreement") and Subordination Deed dated [●] (the "Deed")

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make *[insert type of payment]* of *[insert amount and currency]* under *[insert description of relevant Subordinated Finance Document]* on *[insert date of payment]*.
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause 17 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION PLC

By:

Director

By:

Director

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION PLC**)
acting by) _____
Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Company contact details:

Address: [•]
Phone number: [•]
E-mail: [•]
Attention: [•]

Subordinated Creditor

EXECUTED as a DEED)
by **[SUBORDINATED CREDITOR]**)
acting by) _____
Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Subordinated Creditor contact details:

Address: [•]
Fax number: [•]
Phone number: [•]
E-mail: [•]
Attention: [•]

Facility Agent

EXECUTED as a DEED)
by MIZUHO BANK, LTD.)
acting by)

Director

In the presence of:

Witness's Signature _____

Name: _____

Address: _____

Facility Agent contact details:

Address: 30 Old Bailey
London
EC4M 7AU
Fax number: 44 0 203 147 4118
Phone number: 44 207 012 4703
E-mail: loanagency@mhcb.co.uk
Attention: Agency Department

**SCHEDULE 11
FORM OF DISTRIBUTION CERTIFICATE**

To: Mizuho Bank, Ltd. as Facility Agent

From: [Western Power Distribution plc]

Date: [●]

Western Power Distribution plc - £130,000,000 Term Facility Agreement dated [●] 2018 (the "Agreement")

1. We refer to the Agreement. Capitalised terms defined in the Agreement have the same meaning in this Distribution Certificate, unless given a different meaning in this Distribution Certificate.
2. We confirm that the Company will make [insert type of payment] of [insert amount and currency] on [insert date of payment].
3. We confirm that, taking into account such payment, the Borrower will be in compliance with its obligations under Clause 17 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

WESTERN POWER DISTRIBUTION PLC

By: 

Director

By:

Director

SIGNATORIES

THE BORROWER

Signed by) IAN WILLIAMS
for and on behalf of) RESOURCES AND EXTERNAL
AFFAIRS
) DIRECTOR
WESTERN POWER DISTRIBUTION PLC)

Address: Western Power Distribution plc
Avonbank
Feeder Road
Bristol BS2 0TB

Tel: 44 117 933 2374
E-mail: wpdtreasuryconfirms@westernpower.co.uk
Attention: Treasury Team

[Signature page to the Facility Agreement]

THE MANDATED LEAD ARRANGERS

Signed by) NICK BAKER
for and on behalf of) ASSOCIATE DIRECTOR
)
HSBC BANK PLC)

Address: 3 Rivergate
Temple Quay
Bristol BS1 3ER
United Kingdom
Tel: 44 345 583 9817
E-mail: sharon daw@hsbc.com

[Signature page to the Facility Agreement]

Signed by) ROBERT PETTITT
for and on behalf of) MANAGING DIRECTOR
)
MIZUHO BANK, LTD.)

Address: 30 Old Bailey
London
EC4M 7AU

E-mail: csg@mhcb.co.uk

[Signature page to the Facility Agreement]

THE ORIGINAL LENDERS

Signed by) NICK BAKER
for and on behalf of) ASSOCIATE DIRECTOR
)
HSBC BANK PLC)

Address: 3 Rivergate
Temple Quay
Bristol BS1 3ER
United Kingdom

Tel: +44 345 583 9817
E-mail: sharondaw@hsbc.com

Signed by) ROBERT PETTITT
for and on behalf of) MANAGING DIRECTOR
)
MIZUHO BANK, LTD.)

Address: 30 Old Bailey
London

EC4M 7AU

E-mail: csg@mhcb.co.uk

[Signature page to the Facility Agreement]

THE FACILITY AGENT

Signed by) ROBERT PETTITT
for and on behalf of) MANAGING DIRECTOR
)
MIZUHO BANK, LTD.)

Address: 30 Old Bailey
London
EC4M 7AU

Tel: +44 (0) 207 012 4703
Fax: +44 0 207 147 4118
E-mail: loanagency@mhcb.co.uk

[Signature page to the Facility Agreement]

Uninformed Copy

DATED 12 JANUARY 2012 (AS AMENDED AND RESTATED ON 29 JULY 2014 AND AS AMENDED ON 21 MARCH 2018)

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC
AS THE COMPANY

HSBC BANK PLC
AND
MIZUHO BANK, LTD.
AS JOINT COORDINATORS

ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS)
BARCLAYS BANK PLC
HSBC BANK PLC
LLOYDS BANK PLC
MIZUHO BANK, LTD.
ROYAL BANK OF CANADA
THE ROYAL BANK OF SCOTLAND PLC
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.
AS BOOKRUNNERS AND MANDATED LEAD ARRANGERS

AND

MIZUHO BANK, LTD.
AS FACILITY AGENT

£245,000,000 MULTICURRENCY REVOLVING FACILITY AGREEMENT

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THIS AGREEMENT is dated 12 January 2012 and has been amended and restated on 29 July 2014 and amended on 21 March 2018.

BETWEEN:

- (1) **WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC** (registered number 02366894) (the "**Company**");
- (2) **HSBC BANK PLC** and **MIZUHO BANK, LTD.** as joint coordinators (the "**Joint Coordinators**");
- (3) **ABBEY NATIONAL TREASURY SERVICES PLC (TRADING AS SANTANDER GLOBAL BANKING & MARKETS)**, **BARCLAYS BANK PLC**, **HSBC BANK PLC**, **LLOYDS BANK PLC**, **MIZUHO BANK, LTD.**, **ROYAL BANK OF CANADA**, **THE ROYAL BANK OF SCOTLAND PLC** and **THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.** as bookrunners and mandated lead arrangers (the "**Arrangers**");
- (4) **THE FINANCIAL INSTITUTIONS** listed in Schedule 1 (*Original Parties*) as original lenders (the "**Original Lenders**");
and
- (5) **MIZUHO BANK, LTD.** as facility agent (the "**Facility Agent**").

IT IS AGREED as follows:

1. **INTERPRETATION**

1.1 **Definitions**

In this Agreement:

"**Acceptable Bank**" means:

- (a) an Effective Date Lender (as defined in the Amendment Agreement);
- (b) a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of A- or higher by Standard & Poor's Rating Services or A- or higher by Fitch Ratings Ltd or A3 or higher by Moody's Investor Services Limited or a comparable rating from an internationally recognised credit rating agency; or
- (c) any other bank or financial institution approved by the Facility Agent (acting reasonably).

"**Acceptable Jurisdiction**" means:

- (a) the United States of America;

- (b) the United Kingdom; or
- (c) any other member state of the European Union or any Participating Member State where such country has long term sovereign credit rating of A- or higher by Standard & Poor's Rating Services or A3 or higher from Moody's Investor Services Limited or A- or higher from Fitch Ratings Ltd.

"**Act**" means the Electricity Act 1989 and, unless the context otherwise requires, all subordinate legislation made pursuant thereto.

"**Administrative Party**" means an Arranger or the Facility Agent.

"**Affiliate**" means a Subsidiary or a Holding Company of a person or any other Subsidiary of that Holding Company. Notwithstanding the foregoing and in so far as it relates to The Royal Bank of Scotland plc as a Lender, the term "**Affiliate**" shall not include (i) the UK government or any member or instrumentality thereof, including Her Majesty's Treasury and UK Financial Investments Limited (or any directors, officers, employees or entities thereof) or (ii) any persons or entities controlled by or under common control with the UK government or any member or instrumentality thereof (including Her Majesty's Treasury and UK Financial Investments Limited) and which are not part of The Royal Bank of Scotland Group plc and its subsidiary or subsidiary undertakings.

"**Agent's Spot Rate of Exchange**" means the Facility Agent's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with Sterling at or about 11.00 a.m. on a particular day.

"**Amendment Agreement**" means the amendment and restatement agreement dated 29 July 2014 between the parties to this Agreement at such time.

"**Ancillary Commencement Date**" means, in relation to an Ancillary Facility, the date on which that Ancillary Facility is first made available, which date shall be a Business Day within the Availability Period.

"**Ancillary Commitment**" means, in relation to an Ancillary Lender and an Ancillary Facility, the maximum Base Currency Amount which that Ancillary Lender has agreed (whether or not subject to satisfaction of conditions precedent) to make available from time to time under an Ancillary Facility and which has been authorised as such under Clause 8 (*Ancillary Facilities*), to the extent that amount is not cancelled or reduced under this Agreement or the Ancillary Documents relating to that Ancillary Facility.

"**Ancillary Document**" means each document relating to or evidencing the terms of an Ancillary Facility.

"**Ancillary Facility**" means any ancillary facility made available by an Ancillary Lender in accordance with Clause 8 (*Ancillary Facilities*).

"**Ancillary Lender**" means each Lender (or Affiliate of a Lender) which makes available an Ancillary Facility in accordance with Clause 8 (*Ancillary Facilities*).

"Ancillary Outstandings" means, at any time, in relation to an Ancillary Lender and an Ancillary Facility then in force the aggregate of the equivalents (as calculated by that Ancillary Lender) in the Base Currency of the following amounts outstanding under that Ancillary Facility:

- (a) the principal amount under each overdraft facility and on-demand short term loan facility (net of any Available Credit Balance);
- (b) the face amount of each guarantee, bond and letter of credit under that Ancillary Facility; and
- (c) the amount fairly representing the aggregate exposure (excluding interest and similar charges) of that Ancillary Lender under each other type of accommodation provided under that Ancillary Facility,

in each case as determined by such Ancillary Lender, acting reasonably in accordance with its normal banking practice and in accordance with the relevant Ancillary Document.

"Applicable Accounting Principles" means those accounting principles, standards and practices generally accepted in the United Kingdom and the accounting and reporting requirements of the Companies Act 2006, in each case as used in the Original Financial Statements.

"Authority" means The Gas and Electricity Markets Authority established under Section 1 of the Utilities Act 2000.

"Available Commitment" means a Lender's Commitment minus:

- (a) the Base Currency Amount of its participation in any outstanding Loans and the Base Currency Amount of the aggregate of its (and its Affiliate's) Ancillary Commitments; and
- (b) in relation to any proposed Loans, the Base Currency Amount of its participation in any Loans that are due to be made on or before the proposed Drawdown Date and the Base Currency Amount of its (and its Affiliate's) Ancillary Commitment in relation to any new Ancillary Facility that is due to be made available on or before the proposed Drawdown Date,

other than that Lender's participation in any Loans that are due to be repaid or prepaid on or before the proposed Drawdown Date and that Lender's (and its Affiliate's) Ancillary Commitments to the extent that they are due to be reduced or cancelled on or before the proposed Drawdown Date.

"Available Credit Balance" means, in relation to an Ancillary Facility, credit balances on any account of the Company with the Ancillary Lender making available that Ancillary Facility to the extent that those credit balances are freely available to be set off by that Ancillary Lender against liabilities owed to it by the Company under that Ancillary Facility.

"Available Facility" means the aggregate for the time being of each Lender's Available Commitment.

"Availability Period" means the period from and including the date of this Agreement to and including the date falling one month prior to the Final Maturity Date.

"Balancing and Settlement Code" means the document, as modified from time to time, setting out the electricity balancing and settlement arrangements designated by the Secretary of State and adopted by The National Grid Company plc (Registered No. 2366977) or its successor pursuant to its transmission licence.

"Balancing and Settlement Code Framework Agreement" means the agreement of that title, in the form approved by the Secretary of State, as amended from time to time, to which the Company is a party and by which the Balancing and Settlement Code is made binding upon the Company.

"Base Currency" means Sterling.

"Base Currency Amount" means:

- (a) in relation to a Loan, the amount specified in the Request delivered by the Company for that Loan (or, if the amount requested is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Drawdown Date or, if later, on the date the Facility Agent receives the Request adjusted to reflect any repayment, prepayment, consolidation or division of the Loan, or as the case may be, cancellation or reduction of an Ancillary Facility; and
- (b) in relation to an Ancillary Commitment, the amount specified as such in the notice delivered to the Facility Agent by the Company pursuant to Clause 8.2 (*Availability*) (or, if the amount specified is not denominated in the Base Currency, that amount converted into the Base Currency at the Agent's Spot Rate of Exchange on the date which is three Business Days before the Ancillary Commencement Date for that Ancillary Facility or, if later, the date the Facility Agent receives the notice of the Ancillary Commitment in accordance with the terms of this Agreement).

"Basel III" means:

- (a) the agreements on capital requirements, a leverage ratio and liquidity standards contained in "Basel III: A global regulatory framework for more resilient banks and banking systems", "Basel III: International framework for liquidity risk measurement, standards and monitoring" and "Guidance for national authorities operating the countercyclical capital buffer" published by the Basel Committee on Banking Supervision in December 2010, each as amended, supplemented or restated;
 - (b) the rules for global systematically important banks contained in "Global systematically important banks: assessment methodology and the additional loss absorbency requirement – Rules text" published by the Basel Committee on
-

Banking Supervision in November 2011, as amended, supplemented or restated; and

- (c) any further guidance or standards published by the Basel Committee on Banking Supervision relating to "Basel III".

"**Break Costs**" means the amount (if any), calculated in accordance with Clause 26.3 (*Break Costs*), which a Lender is entitled to receive under this Agreement as compensation if any part of a Loan or overdue amount is prepaid.

"**Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks are open in London and:

- (a) if on that day a payment in or a purchase of a currency (other than euro) is to be made, the principal financial centre of the country of that currency; or
- (b) if on that day a payment in or purchase of euro is to be made, which is also a TARGET Day.

"**Code**" means the US Internal Revenue Code of 1986.

"**Commitment**" means:

- (a) in relation to an Original Lender, the amount in the Base Currency set opposite its name under the heading "Commitment" in Schedule 1 (*Original Parties*) and the amount of any other Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*); and
- (b) in relation to any other Lender, the amount in the Base Currency of any Commitment transferred to it under this Agreement or assumed by it in accordance with Clause 2.2 (*Increase*),

to the extent not cancelled, reduced or transferred by it under this Agreement.

"**Compliance Certificate**" means a certificate substantially in the form of Schedule 5 (*Form of Compliance Certificate*) setting out, among other things, calculations of the financial covenants.

"**Confidential Information**" means all information relating to the Company, the Group, the Finance Documents or the Facility of which a Finance Party becomes aware in its capacity as, or for the purpose of becoming, a Finance Party or which is received by a Finance Party in relation to, or for the purpose of becoming a Finance Party under, the Finance Documents or the Facility from either:

- (a) any member of the Group or any of its advisers; or
 - (b) another Finance Party, if the information was obtained by that Finance Party directly or indirectly from any member of the Group or any of its advisers,
-

in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (i) is or becomes public information other than as a direct or indirect result of any breach by that Finance Party of Clause 30 (*Confidentiality and disclosure of information*); or
- (ii) is identified in writing at the time of delivery as non-confidential by any member of the Group or any of its advisers; or
- (iii) is known by that Finance Party before the date the information is disclosed to it in accordance with paragraphs (a) or (b) above or is lawfully obtained by that Finance Party after that date, from a source which is, as far as that Finance Party is aware, unconnected with the Group and which, in either case, as far as that Finance Party is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

"Confidentiality Undertaking" means a confidentiality undertaking substantially in a recommended form of the LMA or in any other form agreed between the Company and the Facility Agent.

"Contribution Notice" means a contribution notice issued by the Pensions Regulator under section 38 or section 47 of the Pensions Act 2004.

"CRD IV" means:

- (a) Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms; and
- (b) Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

"CTA" means the Corporation Tax Act 2009.

"Debt Purchase Transaction" means, in relation to a person, a transaction where such person:

- (a) purchases by way of assignment or transfer;
- (b) enters into any sub-participation in respect of; or
- (c) enters into any other agreement or arrangement having an economic effect substantially similar to a sub-participation in respect of,

any Commitment or amount outstanding under this Agreement.

"Default" means:

- (a) an Event of Default; or
- (b) an event which would be (with the lapse of time, the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

"Defaulting Lender" means any Lender:

- (a) which has failed to make its participation in a Loan available or has notified the Facility Agent that it will not make its participation in a Loan available by the Drawdown Date of that Loan in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document; or
- (c) with respect to which an Insolvency Event has occurred and is continuing,

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,and payment is made within 5 Business Days of its due date; or
- (ii) the Lender is disputing in good faith whether it is contractually obliged to make the payment in question.

"Designated Gross Amount" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Gross Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"Designated Net Amount" means the amount notified by the Company to the Facility Agent upon the establishment of a Multi-account Overdraft as being the maximum amount of Net Outstandings that will, at any time, be outstanding under that Multi-account Overdraft.

"Disruption Event" means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Finance Documents (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; or
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that, or any other Party:

- (i) from performing its payment obligations under the Finance Documents; or
- (ii) from communicating with other Parties in accordance with the terms of the Finance Documents,

and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

"Dodd-Frank" means the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 stat. 1376 (2010) and all requests, rules, guidelines or directives in connection therewith.

"Drawdown Date" means each date on which a Loan is made.

"Environment" means humans, animals, plants and all other living organisms including the ecological systems of which they form part and the following media:

- (a) air (including, without limitation, air within natural or man-made structures, whether above or below ground);
- (b) water (including, without limitation, territorial, coastal and inland waters, water under or within land and water in drains and sewers); and
- (c) land (including, without limitation, land under water).

"Environmental Claim" means any claim, proceeding, formal notice or investigation by any person in respect of any Environmental Law.

"Environmental Law" means any applicable law or regulation which relates to:

- (a) the pollution or protection of the Environment;
- (b) the conditions of the workplace; or
- (c) the generation, handling, storage, use, release or spillage of any substance which, alone or in combination with any other, is capable of causing harm to the Environment, including, without limitation, any waste.

"euro or euros or €" means the single currency of the Participating Member States.

"EURIBOR" means in relation to any Loan in euro:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the Term of that Loan; and

- (ii) it is not possible to calculate an Interpolated Screen Rate for that Loan,
the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the offering of deposits in euro and for a period equal in length to the Term for that Loan.

"Event of Default" means an event specified as such in this Agreement.

"Facility" means the revolving credit facility made available under this Agreement as described in sub-clause 2.1 of Clause 2 (*The Facility*).

"Facility Office" means the office(s) notified by a Lender to the Facility Agent:

- (a) on or before the date it becomes a Lender; or
- (b) by not less than five Business Days' notice,

as the office(s) through which it will perform its obligations under this Agreement.

"FATCA" means:

- (a) sections 1471 to 1474 of the Code or any associated regulations or other official guidance;
- (b) any treaty, law, regulation or other official guidance enacted in any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of paragraph (a) above; or
- (c) any agreement pursuant to the implementation of paragraphs (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

"FATCA Application Date" means:

- (a) in relation to a "withholdable payment" described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014;
- (b) in relation to a "withholdable payment" described in section 1473(1)(A)(ii) of the Code (which relates to "gross proceeds" from the disposition of property of a type that can produce interest from sources within the US), 1 January 2017; or
- (c) in relation to a "passthru payment" described in section 1471(d)(7) of the Code not falling within paragraphs (a) or (b) above, 1 January 2017,

or, in each case, such other date from which such payment may become subject to a deduction or withholding required by FATCA as a result of any change in FATCA after the date of this Agreement.

"**FATCA Deduction**" means a deduction or withholding from a payment under a Finance Document required by FATCA.

"**FATCA Exempt Party**" means a Party that is entitled to receive payments free from any FATCA Deduction.

"**Fee Letter**" means:

- (a) any letter entered into by reference to the Facility between one or more Administrative Parties and the Company setting out the amount of certain fees referred to in the Agreement; and
- (b) any agreement setting out fees payable to a Finance Party referred to in Clause 25 (*Fees*) of this Agreement or under any other Finance Document.

"**Final Maturity Date**" means, subject to Clause 6 (Extension Option), the fifth anniversary of the date of the Amendment Agreement.

"**Finance Document**" means:

- (a) this Agreement;
- (b) any Ancillary Document;
- (c) a Fee Letter;
- (d) a Transfer Certificate; or
- (e) any other document designated as such by the Facility Agent and the Company.

"**Finance Party**" means a Lender, an Ancillary Lender or an Administrative Party.

"**Financial Indebtedness**" means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit;
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;
- (e) any finance or capital lease;
- (f) receivables sold or discounted (otherwise than on a non-recourse basis);
- (g) the acquisition cost of any asset to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition of that asset;

- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark to market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in paragraphs (a) to (j) above.

"Financial Support Direction" means a financial support direction issued by the Pensions Regulator under section 43 of the Pensions Act 2004.

"Funding Rate" means any rate notified by a Lender to the Facility Agent pursuant to Clause 13 (*Market Disruption*).

"Gross Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft but calculated on the basis that the words "(net of any Available Credit Balance)" in paragraph (a) of the definition of "Ancillary Outstandings" were deleted.

"Group" means the Company and its Subsidiaries.

"Holding Company" means in relation to a person, any other person in respect of which it is a Subsidiary.

"Impaired Agent" means the Facility Agent at any time when:

- (a) it has failed to make (or has notified a Party that it will not make) a payment required to be made by it under the Finance Documents by the due date for payment;
- (b) the Facility Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Facility Agent is also a Lender) it is a Defaulting Lender under paragraph (a) or (b) of the definition of "Defaulting Lender"; or
- (d) an Insolvency Event has occurred and is continuing with respect to the Facility Agent;

unless, in the case of paragraph (a) above:

- (i) its failure to pay is caused by:
 - (A) administrative or technical error; or
 - (B) a Disruption Event,

and payment is made within 5 Business Days of its due date; or

- (ii) the Facility Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

"Increase Confirmation" means a confirmation substantially in the form set out in Schedule 6 (*Form of Increase Confirmation*).

"Increase Lender" has the meaning given to that term in Clause 2.2.1 (*Increase*).

"Increased Cost" means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Finance Party's (or its Affiliate's) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Finance Party or any of its Affiliates but only to the extent attributable to that Finance Party having entered into any Finance Document or funding or performing its obligations under any Finance Document.

"Insolvency Event" in relation to a Finance Party means that the Finance Party:

- (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
- (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding up or liquidation; or

- (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof;
- (f) has a resolution passed for its winding up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (g) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (h) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;
- (i) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
- (j) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

"Interpolated Screen Rate" means, in relation to LIBOR or EURIBOR for any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Term of that Loan; and
- (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Term of that Loan,

each as of the Specified Time on the Quotation Day for the currency of that Loan.

"ITA" means the Income Tax Act 2007.

"Legal Reservations" means:

- (a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;
- (b) the time barring of claims under the Limitation Act 1980 and the Foreign Limitation Periods Act 1984, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;
- (c) similar principles, rights and defences under the laws of any jurisdiction in which a member of the Group or a Holding Company of the Company is incorporated; and

- (d) any other matters which are set out as qualifications or reservations as to matters of law of general application in any legal opinion provided under Schedule 2 (*Conditions Precedent Documents*).

"**Lender**" means:

- (a) an Original Lender; or
- (b) any person which becomes a Lender after the date of this Agreement in accordance with Clause 2.2 (*Increase*) or Clause 29 (*Changes to the Parties*),

which in each case has not ceased to be a Lender in accordance with the terms of this Agreement.

"**LIBOR**" means, in relation to any Loan:

- (a) the applicable Screen Rate;
- (b) (if no Screen Rate is available for the Term of that Loan) the Interpolated Screen Rate for that Loan; or
- (c) if:
 - (i) no Screen Rate is available for the currency of that Loan; or
 - (ii) no Screen Rate is available for the Term of that Loan and it is not possible to calculate an Interpolated Screen Rate for that Loan,

the Reference Bank Rate,

as of, in the case of paragraphs (a) and (c) above, the Specified Time on the Quotation Day for the currency of that Loan and for a period equal in length to the Term of that Loan.

"**Licence**" means:

- (a) the electricity distribution licence made and treated as granted to the Company under Section 6(1)(c) of the Act pursuant to a licensing scheme made by the Secretary of State under Part II of Schedule 7 to the Utilities Act 2000 on 28 September, 2001; or
- (b) any statutory amendment or replacement licence or licences granted pursuant to the Utilities Act 2000 which permit the Company to distribute electricity in the area it is certified to operate in.

"**LMA**" means the Loan Market Association.

"**Loan**" means, unless otherwise stated in this Agreement, the principal amount of each borrowing under this Agreement or the principal amount outstanding of that borrowing.

"**Majority Lenders**" means, at any time, Lenders:

- (a) whose share in the outstanding Loans and whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the aggregate of all the outstanding Loans and the undrawn Commitments of all the Lenders;
- (b) if there are no Loans then outstanding, whose undrawn Commitments then aggregate $66\frac{2}{3}$ per cent. or more of the Total Commitments; or
- (c) if there are no Loans then outstanding and the Total Commitments have been reduced to zero, whose Commitments aggregated $66\frac{2}{3}$ per cent. or more of the Total Commitments immediately before the reduction.

"Margin" means, provided that:

- (a) at least one of Moody's Investor Services Limited ("**Moody's**") and Standard & Poor's Ratings Services ("**Standard & Poor's**") has provided a current rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company; and
- (b) no Event of Default is outstanding,

prior to but excluding the Effective Date (as defined in the Amendment Agreement) (and for the avoidance of doubt, for the purpose of calculating interest on an overnight basis, from the date immediately preceding the Effective Date to the Effective Date) the rate set out in the table below:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	1.15%
Baa3	BBB-	0.95%
Baa2	BBB	0.85%
Baa1	BBB+	0.75%
A3 or higher	A- or higher	0.65%

from (and including) the Effective Date (as defined in the Amendment Agreement) the rate set out in the table below, provided that on the Effective Date the Margin shall be 0.50%:

Rating (Moody's)	Rating (Standard & Poor's)	Margin (per annum)
Less than Baa3	Less than BBB-	0.90%
Baa3	BBB-	0.70%
Baa2	BBB	0.55%
Baa1	BBB+	0.45%
A3 or higher	A- or higher	0.35%

If the current Moody's and Standard & Poor's ratings in respect of the Company imply different Margin rates, the Margin shall be the average of the two Margin rates implied.

If only one of Moody's and Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, that rating alone shall be used to determine the applicable Margin. If neither Moody's nor Standard & Poor's provides a rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company, or if an Event of Default is outstanding, the applicable Margin shall be 0.90% per annum. Any increase or decrease in the Margin shall take effect on (i) the date on which the Moody's and/or Standard & Poor's rating in respect of the long-term, unsecured and non credit-enhanced debt obligations of the Company is published or, as the case may be, changed or (ii) where the Facility Agent receives notice from the Company or otherwise becomes aware that an Event of Default has occurred or has ceased to be outstanding, with effect from the date on which such Event of Default occurs or ceases to be outstanding.

For the purposes of this definition, an Event of Default being "outstanding" means that it has not been remedied (as evidenced by the Company to the Facility Agent (acting reasonably)) or waived.

"**Material Adverse Effect**" means a material adverse effect on:

- (a) the business, assets or financial condition of the Group taken as a whole;
- (b) the ability of the Company to perform its payment obligations under the Finance Documents or its obligations under Clauses 20.3 (*Interest Cover*) or 20.4 (*Asset Cover*) of this Agreement; or
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of any Finance Party under any of the Finance Documents.

"**Material Subsidiary**" means, at any time, a Subsidiary of the Company whose gross assets or gross revenues (on a consolidated basis and excluding intra-Group items) then equal or exceed 10 per cent. of the gross assets or gross revenues of the Group.

For this purpose:

- (a) the gross assets or gross revenues of a Subsidiary of the Company will be determined from its financial statements (consolidated if it has Subsidiaries) upon which the latest audited financial statements of the Group have been based;
- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited financial statements of the Group have been prepared, the gross assets or gross revenues of that Subsidiary will be determined from its latest financial statements;
- (c) the gross assets or gross revenues of the Group will be determined from the Company's latest audited financial statements, adjusted (where appropriate) to reflect the gross assets or gross revenues of any company or business subsequently acquired or disposed of; and
- (d) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Company, it will immediately cease to be a Material Subsidiary

and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; the subsequent financial statements of those Subsidiaries and the Group will be used to determine whether those Subsidiaries are Material Subsidiaries or not.

If there is a dispute as to whether or not a company is a Material Subsidiary, a certificate of the auditors of the Company will be, in the absence of manifest error, conclusive.

"Maturity Date" means the last day of the Term of a Loan.

"Multi-account Overdraft" means an Ancillary Facility which is an overdraft facility comprising more than one account.

"Net Outstandings" means, in relation to a Multi-account Overdraft, the Ancillary Outstandings of that Multi-account Overdraft.

"New Lender" has the meaning given to that term in Clause 29 (*Changes to the Parties*).

"Non-Consenting Lender" means any Lender who does not and continues not to consent or agree to the Company's or the Facility Agent's (at the request of the Company) request to give a consent in relation to, or agree to a waiver or amendment of, any provisions of the Finance Documents where Lenders whose Commitments aggregate either:

- (a) in the case the consent, waiver or amendment in question requires the approval of all the Lenders, Lenders whose Commitments aggregate more than 85% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 85% of the Total Commitments prior to that reduction); or
- (b) in the case the consent, waiver or amendment in question requires the approval of the Majority Lenders, Lenders whose Commitments aggregate more than 60% of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 60% of the Total Commitments prior to that reduction),

have consented or agreed to such waiver or amendment.

"OFGEM" means the Office of Gas and Electricity Markets.

"Optional Currency" means any currency (other than the Base Currency) which complies with the conditions set out in Clause 4.3 (*Conditions relating to Optional Currencies*).

"Original Financial Statements" means the audited consolidated financial statements of the Company for the year ended 31 March 2014.

"Participating Member State" means a member state of the European Union that has the euro as its lawful currency under the legislation of the European Union relating to Economic and Monetary Union.

"Party" means a party to this Agreement.

"**Pensions Regulator**" means the body corporate called the Pensions Regulator established under Part I of the Pensions Act 2004.

"**PPL**" means PPL Corporation, a company incorporated in Pennsylvania, U.S.A. whose head office is in Two North Ninth Street, Allentown, PA 18101, Pennsylvania, U.S.A., registered number 2570936.

"**Pre-approved Currency**" means U.S.\$ and euro.

"**Pro Rata Share**" means:

- (a) for the purpose of determining a Lender's share in a Loan, the proportion which its Available Commitment bears to the Available Facility immediately prior to making the Loan; and
- (b) for any other purpose on a particular date:
 - (i) the proportion which its Commitment bears to the Total Commitments on that date; or
 - (ii) if the Total Commitments have been cancelled, the proportion which its Commitments bore to the Total Commitments immediately before being cancelled.

"**PUHCA**" means the Public Utility Holding Company Act of 2005, as amended, of the United States of America.

"**Qualifying Lender**" has the meaning given to such term in Clause 14.1 (*Definitions*).

"**Quasi-Security Interest**" has the meaning given to such term in Clause 21.5 (*Negative Pledge*).

"**Quotation Day**" means, in relation to any period for which an interest rate is to be determined:

- (a) (if the currency is Sterling) the first day of that period;
- (b) (if the currency is euro) two TARGET Days before the first day of that period; or
- (c) (for any other currency) two Business Days before the first day of that period,

unless market practice differs in the Relevant Interbank Market for a currency, in which case the Quotation Day for that currency will be determined by the Facility Agent in accordance with market practice in the Relevant Interbank Market (and if quotations would normally be given by leading banks in the Relevant Interbank Market on more than one day, the Quotation Day will be the last of those days).

"**Reference Bank Rate**" means the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request by the Reference Banks:

- (a) in relation to LIBOR, as the rate at which the relevant Reference Bank could borrow funds in the London interbank market; or
- (b) in relation to EURIBOR, as the rate at which the relevant Reference Bank could borrow funds in the European interbank market,

in the relevant currency and for the relevant period, were it to do so by asking for and then accepting interbank offers for deposits in reasonable market size in that currency and for that period.

"Reference Bank Quotation" means any quotation supplied to the Facility Agent by a Reference Bank.

"Reference Banks" means the principal London offices of such banks as may be appointed by the Facility Agent in consultation with the Company and with the consent of the bank so appointed.

"Related Fund" in relation to a fund (the **"first fund"**), means a fund which is managed or advised by the same investment manager or investment adviser as the first fund or, if it is managed by a different investment manager or investment adviser, a fund whose investment manager or investment adviser is an Affiliate of the investment manager or investment adviser of the first fund.

"Relevant Interbank Market" means in relation to euro, the European interbank market and, in relation to any other currency, the London interbank market.

"Repeating Representations" means each of the representations and warranties set out in Clause 18.2 (*Status*) to Clause 18.8 (*Financial Statements*) (inclusive), Clause 18.10 (*Litigation*), Clause 18.12 (*Non-Violation of other Agreements*) and Clause 18.13 (*Governing law and enforcement*).

"Representative" means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

"Request" means a request for a Loan, substantially in the relevant form set out in Schedule 3 (*Requests*).

"Rollover Loan" means one or more Loans:

- (a) made or to be made on the same day that a maturing Loan is due to be repaid;
- (b) the aggregate amount of which is equal to or less than the amount of the maturing Loan;
- (c) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of a currency*)); and
- (d) made or to be made to the Company for the purpose of refinancing that maturing Loan.

"Screen Rate" means:

- (a) in relation to LIBOR, the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for the relevant currency and period displayed on pages LIBOR01 or LIBOR02 of the Reuters screen (or any replacement Reuters page which displays that rate); and
- (b) in relation to EURIBOR, the euro interbank offered rate administered by the Banking Federation of the European Union (or any other person which takes over the administration of that rate) for the relevant period displayed on page EURIBOR01 of the Reuters screen (or any replacement Reuters page which displays that rate),

or, in each case, on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters. If such page or service ceases to be available, the Facility Agent may specify another page or service displaying the relevant rate after consultation with the Company.

"**Secretary of State**" means the Secretary of State for Business, Innovation and Skills.

"**Security Interest**" means any mortgage, pledge, lien, charge, assignment, hypothecation or security interest or any other agreement or arrangement having a similar effect.

"**Specified Time**" means a time determined in accordance with Schedule 7 (*Timetables*).

"**Sterling**" and "**£**" mean the lawful currency of the United Kingdom.

"**Subordination Deed**" means a document in the form set out in Schedule 8 (*Form of Subordination Deed*) duly completed and executed by the parties thereto.

"**Subsidiary**" means:

- (a) a subsidiary within the meaning of section 1159 of the Companies Act 2006; and
- (b) unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single platform and which was launched on 19 November 2007.

"**TARGET Day**" means any day on which TARGET2 is open for the settlement of payments in euro.

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty, addition to tax or any interest payable in connection with any failure to pay or any delay in paying any of the same).

"**Tax Deduction**" means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

"**Tax Payment**" means either an increase in a payment made by the Company to a Finance Party under Clause 14.2 (*Tax gross-up*) or a payment under Clause 14.3 (*Tax indemnity*).

"**Term**" means, in respect of a Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

"**Total Commitments**" means the aggregate of the Commitments being £245,000,000 at the date of this Agreement.

"**Transfer Certificate**" means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*), with such amendments as the Facility Agent may approve or reasonably require or any other form agreed between the Facility Agent and the Company.

"**Transfer Date**" means, in relation to a transfer, the later of:

- (a) the proposed Transfer Date specified in the relevant Transfer Certificate; and
- (b) the date on which the Facility Agent executes the relevant Transfer Certificate.

"**U.K.**" means the United Kingdom.

"**Unpaid Sum**" means any sum due and payable but unpaid by the Company under the Finance Documents.

"**US**" means the United States of America.

"**U.S. Dollars**" and "**U.S.\$**" means the lawful currency for the time being of the United States of America.

"**VAT**" means:

- (a) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112); and
- (b) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in paragraph (a) above, or imposed elsewhere.

1.2 Construction

1.2.1 The following definitions have the meanings given to them in Clause 20 (*Financial Covenants*):

- (a) Cash;
- (b) Cash Equivalent Investments;
- (c) Consolidated EBITDA;
- (d) Interest Payable;
- (e) Measurement Period;

- (f) Regulatory Asset Base; and
- (g) Total Net Debt.

1.2.2 In this Agreement, unless the contrary intention appears, a reference to:

- (a) an **amendment** includes a supplement, novation, restatement or re-enactment and **amended** will be construed accordingly;
 - (b) **assets** includes present and future properties, revenues and rights of every description;
 - (c) an **authorisation** includes an authorisation, consent, approval, resolution, licence, exemption, filing, registration or notarisation;
 - (d) **disposal** means a sale, transfer, grant, lease or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly;
 - (e) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
 - (f) **know your customer requirements** are the identification checks that a Finance Party requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
 - (g) a **person** includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, joint venture or consortium), government, state, agency, organisation or other entity whether or not having separate legal personality;
 - (h) a **regulation** includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
 - (i) the **winding-up** of a person includes the administration, dissolution or liquidation or other like process of that person, any composition or arrangement with the creditors, amalgamation, reconstruction, reorganisation or consolidation pursuant to Part XXVI of the Companies Act 2006 proposed or carried out in respect of that person or a company voluntary arrangement pursuant to the Insolvency Act 1986 carried out or proposed in respect of that person;
 - (j) a currency is a reference to the lawful currency for the time being of the relevant country;
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- (k) save as set out in the definition of Margin in Clause 1.1 (*Definitions*), a Default (other than an Event of Default) being **outstanding** means that it has not been remedied or waived and an Event of Default being **outstanding** means that it has not been waived;
 - (l) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
 - (m) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
 - (n) a person includes its successors in title, permitted assigns and permitted transferees;
 - (o) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
 - (p) a time of day is a reference to London time.
- 1.2.3 Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:
- (a) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
 - (b) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
 - (c) notwithstanding sub-clause 1.2.3(a) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.
- 1.2.4 Unless expressly provided to the contrary in a Finance Document, a person who is not a party to a Finance Document may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999 and notwithstanding any term of any Finance Document, the consent of any third party is not required for any variation (including any release or compromise of any liability) or termination of that Finance Document.
- 1.2.5 Unless the contrary intention appears:
- (a) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
 - (b) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
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- (c) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is or may be outstanding under the Finance Documents.

1.2.6 The headings in this Agreement do not affect its interpretation.

1.2.7 The Company providing cash cover for an Ancillary Facility means the Company paying an amount in the currency of the Ancillary Facility to an interest-bearing account in the name of the Company and the following conditions being met:

- (a) the account is with the Ancillary Lender for which that cash cover is to be provided;
- (b) until no amount is or may be outstanding under that Ancillary Facility, withdrawals from the account may only be made to pay the relevant Finance Party amounts due and payable to it under this Agreement in respect of that Ancillary Facility; and
- (c) the Company has executed a security document over that account, in form and substance satisfactory to the Ancillary Lender with which that account is held, creating a first ranking security interest over that account.

1.2.8 The Company repaying or prepaying any Ancillary Outstandings means:

- (a) the Company providing cash cover in respect of the Ancillary Outstandings;
- (b) the maximum amount payable under the Ancillary Facility being reduced or cancelled in accordance with its terms; or
- (c) the Ancillary Lender being satisfied (acting reasonably) that it has no further liability under that Ancillary Facility,

and the amount by which Ancillary Outstandings are repaid or prepaid under paragraphs (a) and (b) above is the amount of the relevant cash cover or reduction or cancellation.

1.2.9 An amount borrowed includes any amount utilised under an Ancillary Facility.

2. THE FACILITY

2.1 The Facility

2.1.1 Subject to the terms of this Agreement, the Lenders make available to the Company a multicurrency revolving credit facility in an aggregate amount the Base Currency Amount of which is equal to the Total Commitments.

2.1.2 Subject to the terms of this Agreement and the Ancillary Documents, an Ancillary Lender may make all or part of its Commitment available to the Company as an Ancillary Facility.

2 Increase

2.2.1 The Company may by giving prior notice to the Facility Agent by no later than the date falling 10 Business Days after the effective date of a cancellation of:

- (a) the Available Commitments of a Defaulting Lender in accordance with sub-clause 10.6.4 of Clause 10.6 (*Involuntary prepayment and cancellation*); or
- (b) the Commitments of a Lender in accordance with:
 - (i) Clause 10.1 (*Mandatory prepayment – illegality*); or
 - (ii) sub-clause 10.6.2 of Clause 10.6 (*Involuntary prepayment and cancellation*),

request that the Total Commitments be increased (and the Total Commitments shall be so increased) in an aggregate amount in the Base Currency of up to the amount of the Available Commitments or Commitments so cancelled as follows:

- (c) the increased Commitments will be assumed by one or more Lenders or other banks, financial institutions, trusts, funds or other entities (each an "**Increase Lender**") selected by the Company (each of which shall not be a member of the Group and which is further acceptable to the Facility Agent (acting reasonably)) and each of which confirms its willingness to assume and does assume all the obligations of a Lender corresponding to that part of the increased Commitments which it is to assume, as if it had been an Original Lender;
- (d) the Company and any Increase Lender shall assume obligations towards one another and/or acquire rights against one another as the Company and the Increase Lender would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (e) each Increase Lender shall become a Party as a "Lender" and any Increase Lender and each of the other Finance Parties shall assume obligations towards one another and acquire rights against one another as that Increase Lender and those Finance Parties would have assumed and/or acquired had the Increase Lender been an Original Lender;
- (f) the Commitments of the other Lenders shall continue in full force and effect; and
- (g) any increase in the Total Commitments shall take effect on the date specified by the Company in the notice referred to above or any later date on which the conditions set out in sub-clause 2.2.2 below are satisfied.

2.2.2 An increase in the Total Commitments will only be effective on:

- (a) the execution by the Facility Agent of an Increase Confirmation from the relevant Increase Lender; and
 - (b) in relation to an Increase Lender which is not a Lender immediately prior to the relevant increase the performance by the Facility Agent of all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to the assumption of the increased Commitments by that Increase Lender, the completion of which the Facility Agent shall promptly notify to the Company and the Increase Lender.
- 2.2.3 Each Increase Lender, by executing the Increase Confirmation, confirms (for the avoidance of doubt) that the Facility Agent has authority to execute on its behalf any amendment or waiver that has been approved by or on behalf of the requisite Lender or Lenders in accordance with this Agreement on or prior to the date on which the increase becomes effective.
- 2.2.4 Unless the Facility Agent otherwise agrees or the increased Commitment is assumed by an existing Lender, the Company shall, on the date upon which the increase takes effect, pay to the Facility Agent (for its own account) a fee of £1,750 and the Company shall promptly on demand pay the Facility Agent the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with any increase in Commitments under this Clause 2.2.
- 2.2.5 The Company may pay to the Increase Lender a fee in the amount and at the times agreed between the Company and the Increase Lender in a letter between the Company and the Increase Lender setting out that fee. A reference in this Agreement to a Fee Letter shall include any letter referred to in this paragraph.
- 2.2.6 Clause 29.4 (*Limitation of responsibility of Existing Lender*) shall apply *mutatis mutandis* in this Clause 2.2 in relation to an Increase Lender as if references in that Clause to:
- (a) an "**Existing Lender**" were references to all the Lenders immediately prior to the relevant increase;
 - (b) the "**New Lender**" were references to that "**Increase Lender**"; and
 - (c) a "**re-transfer**" and "**re-assignment**" were references to respectively a "**transfer**" and "**assignment**".
- 2.2.7 Each Party (other than the Increase Lender) irrevocably authorises the Facility Agent to execute any duly completed Increase Confirmation on its behalf.

2.3 Nature of a Finance Party's rights and obligations

Unless otherwise agreed by all the Finance Parties:

- 2.3.1 the obligations of a Finance Party under the Finance Documents are several;
-

- 2.3.2 failure by a Finance Party to perform its obligations does not affect the obligations of any other Party under the Finance Documents;
- 2.3.3 no Finance Party is responsible for the obligations of any other Finance Party under the Finance Documents;
- 2.3.4 the rights of a Finance Party under the Finance Documents are separate and independent rights;
- 2.3.5 a debt arising under the Finance Documents to a Finance Party is a separate and independent debt; and
- 2.3.6 a Finance Party may, except as otherwise stated in the Finance Documents, separately enforce those rights.

3. PURPOSE

3.1 Purpose

The Company shall apply all amounts borrowed by it under the Facility towards the general corporate purposes of the Group and in compliance with the Licence, but not in the case of any utilisation of any Ancillary Facility towards any prepayment of any Loan.

3.2 No obligation to monitor

No Finance Party is bound to monitor or verify any amount borrowed pursuant to this Agreement.

4. CONDITIONS PRECEDENT

4.1 Conditions precedent documents

A Request may not be given until the Facility Agent has notified the Company and the Lenders that it has received (or waived receipt of) all of the documents and evidence set out in Schedule 2 (*Conditions Precedent Documents*) in form and substance satisfactory to the Facility Agent. The Facility Agent shall give this notification to the Company and the Lenders upon being so satisfied.

4.2 Further conditions precedent

The obligations of each Lender to participate in any Loan are subject to the further conditions precedent that on both the date of the Request and the Drawdown Date for that Loan:

- 4.2.1 the Repeating Representations are correct in all material respects; and
- 4.2.2 no Default or, in the case of a Rollover Loan, no Event of Default is outstanding or would result from the Loan.

4.3 Conditions relating to Optional Currencies

- 4.3.1 A currency will constitute an Optional Currency in relation to a Loan if:
- (a) it is readily available in the amount required and freely convertible into the Base Currency in the Relevant Interbank Market on the Quotation Day and the Drawdown Date for that Loan; and
 - (b) it is euros or U.S. Dollars or has been approved by the Facility Agent (acting on the instructions of all the Lenders) on or prior to receipt by the Facility Agent of the relevant Request for that Loan.
- 4.3.2 If the Facility Agent has received a written request from the Company for a currency to be approved under paragraph (b) of sub-clause 4.3.1 above, the Facility Agent will confirm to the Company by the Specified Time:
- (a) whether or not the Lenders have granted their approval; and
 - (b) if approval has been granted, the minimum amount (and, if required, integral multiples) for any subsequent Loan in that currency.

4.4 **Maximum number**

Unless the Facility Agent agrees, a Request may not be given if, as a result, there would be more than 20 Loans outstanding.

5. **UTILISATION**

5.1 **Giving of Requests**

- 5.1.1 The Company may borrow a Loan by giving to the Facility Agent a duly completed Request not later than the Specified Time.
- 5.1.2 Each Request is irrevocable.

5.2 **Completion of Requests**

- 5.2.1 A Request for a Loan will not be regarded as having been duly completed unless:
- (a) the Drawdown Date is a Business Day falling within the Availability Period;
 - (b) the currency and amount of the Loan comply with Clause 5.3 (*Currency and amount*); and
 - (c) the proposed Term complies with this Agreement.
- 5.2.2 Only one Loan may be requested in a Request.

5.3 **Currency and amount**

- 5.3.1 The currency specified in a Request must be either the Base Currency or an Optional Currency.

5.3.2 The amount of the proposed Loan must be:

- (a) if the currency selected is the Base Currency, a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility (or such other amount as the Facility Agent may agree); or
- (b) if the currency selected is an Optional Currency, the minimum amount (and if required, integral multiple) specified by the Facility Agent pursuant to paragraph (b) of sub-clause 4.3.2 of Clause 4.3 (*Conditions relating to Optional Currencies*) or, if less, the Available Facility.

5.4 Advance of Loan

- 5.4.1 The Facility Agent must promptly notify each Lender of the details of the requested Loan and the amount of its share in that Loan.
- 5.4.2 If the conditions set out in this Agreement have been met, and subject to Clause 9.2 (*Cashless Rollover*), each Lender shall make its participation in each Loan available by no later than 2.00pm on the Drawdown Date through its Facility Office.
- 5.4.3 Save as set out in sub-clause 5.4.4 below, the amount of each Lender's share of the Loan will be its Pro Rata Share on the proposed Drawdown Date.
- 5.4.4 If a Loan is made to repay Ancillary Outstandings, each Lender's participation in that Loan will be in an amount (as determined by the Facility Agent) which will result as nearly as possible in the aggregate amount of its participation in the Loans then outstanding bearing the same proportion to the aggregate amount of the Loans then outstanding as its Commitment bears to the Total Commitments.
- 5.4.5 No Lender is obliged to participate in a Loan if as a result:
 - (a) the Base Currency Amount of its share in the aggregate amount of the Loans would exceed its Commitment; or
 - (b) the Base Currency Amount of the Loans would exceed the Total Commitments.
- 5.4.6 The Facility Agent shall determine the Base Currency Amount of each Loan which is to be made in an Optional Currency and shall notify each Lender of the amount, currency and the Base Currency Amount of each Loan, the amount of its participation in that Loan and, if different, the amount of that participation to be made available in accordance with Clause 17 (*Payments*), in each case by the Specified Time.

6. EXTENSION OPTION

- 6.1 The Company may by notice to the Facility Agent (the **Initial Extension Request**) not more than 60 days and not less than 30 days before the first anniversary of the date of
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the Amendment Agreement (the **First Anniversary**), request that the Final Maturity Date be extended for a further period of one year.

6.2 The Company may by notice to the Facility Agent (the **Second Extension Request**) no more than 60 days and not less than 30 days before the second anniversary of the date of the Amendment Agreement (the **Second Anniversary**), request that the Final Maturity Date:

(a) with respect to Lenders who have agreed to the Initial Extension Request, be extended for a further period of one year; and/or

(b) if no Initial Extension Request has been made, or with respect to Lenders who refused the Initial Extension Request:

(i) be extended for a period of one year; or

(ii) be extended for a period of two years,

as selected by the Company in the notice to the Facility Agent.

6.3 The Facility Agent must promptly notify the Lenders of any Initial Extension Request or Second Extension Request (an **Extension Request**).

6.4 Each Lender may, in its sole discretion, agree to any Extension Request. Each Lender that agrees to an Extension Request by the date falling 15 days before, the relevant anniversary of the date of this Agreement, will extend its Commitment for a further period of one year or two years, as set out in the relevant Extension Request, from the then current Final Maturity Date and the Final Maturity Date of that Lender will be extended accordingly.

6.5 If any Lender fails to reply to an Extension Request on or before the date falling 15 days before the relevant anniversary of the date of this Agreement, it will be deemed to have refused that Extension Request and its Commitment will not be extended.

6.6 Subject to Clause 6.8 below, each Extension Request is irrevocable.

6.7 If one or more (but not all) of the Lenders agree to an Extension Request, then the Facility Agent must notify the Company and the Lenders which have agreed to the extension, identifying in that notification which Lenders have not agreed to the Extension Request.

6.8 The Company may, on the basis that one or more of the Lenders have not agreed to the Extension Request and no later than the date falling 5 days before the relevant anniversary of the date of this Agreement, withdraw the request by notice to the Facility Agent which will promptly notify the Lenders.

7. **OPTIONAL CURRENCIES**

7.1 **Selection**

7.1.1 The Company must select the currency of a Loan in its Request. The Company may select the Base Currency or an Optional Currency for a Loan.

7.1.2 Unless the Facility Agent otherwise agrees, the Loans may not be denominated at any one time in more than three currencies.

7.2 Revocation of currency

7.2.1 Notwithstanding any other term of this Agreement, if before the Specified Time on any Quotation Day the Facility Agent receives notice from a Lender that:

- (a) the Optional Currency requested is not readily available to it in the relevant interbank market in the amount and for the period required; or
- (b) participating in a Loan in the proposed Optional Currency might contravene any law or regulation applicable to it,

the Facility Agent must give notice to the Company to that effect promptly and in any event before the Specified Time on that day.

7.2.2 In this event:

- (a) that Lender must participate in the Loan in the Base Currency (in an amount equal to that Lender's proportion of the Base Currency Amount or, in respect of a Rollover Loan, an amount equal to that Lender's proportion of the Base Currency Amount of the Rollover Loan that is due to be made); and
- (b) the share of that Lender in the Loan and any other similarly affected Lender(s) will be treated as a separate Loan denominated in the Base Currency during that Term.

7.2.3 Any part of a Loan treated as a separate Loan under this sub-clause will not be taken into account for the purposes of any limit on the number of Loans or currencies outstanding at any one time.

7.2.4 A Loan will still be treated as a Rollover Loan if it is not denominated in the same currency as the maturing Loan by reason only of the operation of this sub-clause.

7.3 Optional Currency equivalents

Except as expressly provided in this Agreement, the equivalent in the Base Currency of a Loan or part of a Loan in an Optional Currency for the purposes of calculating:

- 7.3.1 whether any limit under this Agreement has been exceeded;
- 7.3.2 the amount of a Loan;
- 7.3.3 the share of a Lender in a Loan;
- 7.3.4 the amount of any repayment of a Loan; or
- 7.3.5 the undrawn amount of a Lender's Commitment,

is its Base Currency Amount.

8. ANCILLARY FACILITIES

8.1 Type of Facility

An Ancillary Facility may be by way of:

- 8.1.1 a multicurrency overdraft facility;
- 8.1.2 a multicurrency guarantee, bonding, documentary or stand-by letter of credit facility;
- 8.1.3 a short term multicurrency loan facility;
- 8.1.4 a derivatives facility;
- 8.1.5 a foreign exchange facility; or
- 8.1.6 any other multicurrency facility or accommodation required in connection with the business of the Group and which is agreed by the Company with an Ancillary Lender.

8.2 Availability

- 8.2.1 If the Company and a Lender agree and except as otherwise provided in this Agreement, the Lender may provide all or part of its Commitment as an Ancillary Facility.
- 8.2.2 An Ancillary Facility shall not be made available unless, not later than three Business Days prior to the Ancillary Commencement Date for an Ancillary Facility, the Facility Agent has received from the Company:
 - (a) a notice in writing of the establishment of an Ancillary Facility and specifying:
 - (i) the proposed Ancillary Commencement Date and expiry date of the Ancillary Facility;
 - (ii) the proposed type of Ancillary Facility to be provided;
 - (iii) the proposed Ancillary Lender;
 - (iv) the proposed Ancillary Commitment, the maximum amount of the Ancillary Facility and, in the case of a Multi-account Overdraft, its Designated Gross Amount and its Designated Net Amount;
 - (v) the proposed currency of the Ancillary Facility (if not denominated in the Base Currency); and

(b) any other information which the Facility Agent may reasonably request in connection with the Ancillary Facility.

8.2.3 The Facility Agent shall promptly notify the Ancillary Lender and the other Lenders of the establishment of an Ancillary Facility.

8.2.4 Subject to compliance with sub-clause 8.2.2 above:

(a) the Lender concerned will become an Ancillary Lender; and

(b) the Ancillary Facility will be available,

with effect from the date agreed by the Company and the Ancillary Lender.

8.3 Terms of Ancillary Facilities

8.3.1 Except as provided below, the terms of any Ancillary Facility will be those agreed by the Ancillary Lender and the Company.

8.3.2 Those terms:

(a) must be based upon normal commercial terms at that time (except as varied by this Agreement);

(b) may only allow the Company to use the Ancillary Facility;

(c) may not allow the Ancillary Outstandings to exceed the Ancillary Commitment;

(d) may not allow the Ancillary Commitment of a Lender to exceed the Available Commitment of that Lender (before taking into account the effect of the Ancillary Facility on that Available Commitment); and

(e) must require that the Ancillary Commitment is reduced to nil, and that all Ancillary Outstandings are repaid not later than the Final Maturity Date (or such earlier date as the Commitment of the relevant Ancillary Lender (or its Affiliate) is reduced to zero).

8.3.3 If there is any inconsistency between any term of an Ancillary Facility and any term of this Agreement, this Agreement shall prevail except for (i) Clause 24.3 (*Calculations*) which shall not prevail for the purposes of calculating fees, interest or commission relating to an Ancillary Facility; (ii) an Ancillary Facility comprising more than one account where the terms of the Ancillary Documents shall prevail to the extent required to permit the netting of balances on those accounts; and (iii) where the relevant term of this Agreement would be contrary to, or inconsistent with, the law governing the relevant Ancillary Document, in which case that term of this Agreement shall not prevail.

8.3.4 Interest, commission and fees on Ancillary Facilities are dealt with in Clause 25.6 (*Interest, commission and fees on Ancillary Facilities*).

4 Repayment of Ancillary Facility

- 8.4.1 An Ancillary Facility shall cease to be available on the Final Maturity Date or such earlier date on which its expiry date occurs or on which it is cancelled in accordance with the terms of this Agreement.
- 8.4.2 If an Ancillary Facility expires or is cancelled in accordance with its terms the Ancillary Commitment of the Ancillary Lender shall be reduced to zero.
- 8.4.3 No Ancillary Lender may demand repayment or prepayment of any Ancillary Outstandings prior to the expiry date of the relevant Ancillary Facility unless:
- (a) required to reduce the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount;
 - (b) the Total Commitments have been cancelled in full, or all outstanding Loans have become due and payable in accordance with the terms of this Agreement;
 - (c) it becomes unlawful in any applicable jurisdiction for the Ancillary Lender to perform any of its obligations as contemplated by this Agreement or to fund, issue or maintain its participation in its Ancillary Facility (or it becomes unlawful for any Affiliate of the Ancillary Lender for the Ancillary Lender to do so); or
 - (d) both:
 - (i) the Available Commitments; and
 - (ii) the notice of the demand given by the Ancillary Lender,

would not prevent the Company funding the repayment of those Ancillary Outstandings in full by way of Loan.

- 8.4.4 If a Loan is made to repay Ancillary Outstandings in full, the relevant Ancillary Commitment shall be reduced to zero.

8.5 Limitations on Ancillary Outstandings

The Company shall procure that:

- 8.5.1 the Ancillary Outstandings under any Ancillary Facility shall not exceed the Ancillary Commitment applicable to that Ancillary Facility; and
- 8.5.2 in relation to a Multi-account Overdraft:
- (a) the Ancillary Outstandings shall not exceed the Designated Net Amount applicable to that Multi-account Overdraft; and
 - (b) the Gross Outstandings shall not exceed the Designated Gross Amount applicable to that Multi-account Overdraft.

6 Information

The Company and each Ancillary Lender shall, promptly upon request by the Facility Agent, supply the Facility Agent with any information relating to the operation of an Ancillary Facility (including the Ancillary Outstandings) as the Facility Agent may reasonably request from time to time. The Company consents to all such information being released to the Facility Agent and the other Finance Parties.

8.7 Affiliates of Lenders as Ancillary Lenders

- 8.7.1 Subject to the terms of this Agreement, an Affiliate of a Lender may become an Ancillary Lender. In such case, the Lender and its Affiliate shall be treated as a single Lender whose Commitment is the amount set out opposite the relevant Lender's name in Schedule 1 (*Original Parties*) and/or the amount of any Commitment transferred to or assumed by that Lender under this Agreement, to the extent (in each case) not cancelled, reduced or transferred by it under this Agreement.
- 8.7.2 The Company shall specify any relevant Affiliate of a Lender in any notice delivered by the Company to the Facility Agent pursuant to paragraph 8.2.2(a) of Clause 8.2 (*Availability*).
- 8.7.3 If a Lender assigns all of its rights and benefits or transfers all of its rights and obligations to a New Lender, its Affiliate shall cease to have any obligations under this Agreement or any Ancillary Document.
- 8.7.4 Where this Agreement or any other Finance Document imposes an obligation on an Ancillary Lender and the relevant Ancillary Lender is an Affiliate of a Lender which is not a party to that document, the relevant Lender shall ensure that the obligation is performed by its Affiliate.

8.8 Commitment amounts

Notwithstanding any other term of this Agreement, each Lender shall ensure that at all times its Commitment is not less than its Ancillary Commitment or the Ancillary Commitment of its Affiliate.

8.9 Amendments and Waivers – Ancillary Facilities

No amendment or waiver of a term of any Ancillary Facility shall require the consent of any Finance Party other than the relevant Ancillary Lender unless such amendment or waiver itself relates to or gives rise to a matter which would require an amendment of or under this Agreement (including, for the avoidance of doubt, under this Clause). In such a case, the provisions of this Agreement with regard to amendments and waivers will apply.

9. REPAYMENT

9.1 Repayment of Loans

9.1.1 The Company must repay each Loan in full on its Maturity Date. No Loan may be outstanding after the Final Maturity Date.

9.1.2 Subject to the other terms of this Agreement, any amounts repaid under sub-clause 9.1.1 above may be re-borrowed.

9.2 Cashless Rollover

9.2.1 Without prejudice to the Company's obligation under Clause 9.1 above, if one or more Loans are to be made available to the Company:

- (a) on the same day that a maturing Loan is due to be repaid by the Company;
- (b) in the same currency as the maturing Loan (unless it arose as a result of the operation of Clause 7.2 (*Revocation of currency*)); and
- (c) in whole or in part for the purpose of refinancing the maturing Loan,

the aggregate amount of the new Loans shall be treated as if applied in or towards repayment of the maturing Loan so that:

- (i) if the amount of the maturing Loan exceeds the aggregate amount of the new Loans:
 - (A) the Company will only be required to pay an amount in cash in the relevant currency equal to that excess; and
 - (B) each Lender's participation (if any) in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation (if any) in the maturing Loan and that Lender will not be required to make its participation in the new Loans available in cash; and
- (ii) if the amount of the maturing Loan is equal to or less than the aggregate amount of the new Loans:
 - (A) the Company will not be required to make any payment in cash; and
 - (B) each Lender will be required to make its participation in the new Loans available in cash only to the extent that its participation (if any) in the new Loans exceeds that Lender's participation (if any) in the maturing Loan and the remainder of that Lender's participation in the new Loans shall be treated as having been made available and applied by the Company in or towards repayment of that Lender's participation in the maturing Loan.

10. PREPAYMENT AND CANCELLATION

10.1 Mandatory prepayment - illegality

- 10.1.1 A Lender must notify the Company promptly if it becomes aware that it is unlawful in any jurisdiction for that Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in any Loan.
- 10.1.2 After notification under clause 10.1.1 above:
- (a) the Company must repay or prepay the share of that Lender in each Loan made to it on the date specified in clause 10.1.3 below; and
 - (b) the Commitments of that Lender will be immediately cancelled.
- 10.1.3 The date for repayment or prepayment of a Lender's share in a Loan will be:
- (a) the Business Day following receipt by the Company of notice from the Lender under sub-clause 10.1.1 above; or
 - (b) if later, the latest date allowed by the relevant law.

10.2 Mandatory prepayment - change of control

If, except in the context of a group reorganisation where the Company continues to be controlled directly or indirectly by PPL, the Company becomes aware of any person (whether alone or together with any associated person or persons) gaining control of the Company (for these purposes "associated person" means, in relation to any person, a person who is (i) "acting in concert" (as defined in the City Code on Takeovers and Mergers) with that person or (ii) a "connected person" (as defined in section 839 of the Taxes Act) of that person and "control" means the relevant person satisfies any of the criteria set out in paragraphs (1)(a) to (c) of Section 1159 of the Companies Act 2006):

- 10.2.1 within five days of such date, the Company shall give notice of such change of control to the Facility Agent;
- 10.2.2 the Lenders and the Company shall immediately enter into negotiations for a period of not more than 45 days from the date of the change of control with a view to agreeing whether the Facility shall continue to be made available and on what terms;
- 10.2.3 if no such agreement is reached within the said period of 45 days then:
- (a) any Lender may on 10 days' notice to the Facility Agent and to the Company require the repayment of its share in each Loan and the repayment of its Ancillary Outstandings and cancel its Commitment; and
 - (b) the Majority Lenders may on 10 days' notice to the Company require repayment in full of all outstanding Loans and Ancillary Outstandings and cancel the Total Commitments; and
- 10.2.4 a Lender shall not be obliged to fund any further loans under the Facility (except for a Rollover Loan) during the negotiation period set out in sub-clause 10.2.2,
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and if no agreement is reached within such negotiation period, during the 10 day notice period set out in sub-clause 10.2.3.

10.3 Voluntary prepayment

- 10.3.1 The Company may, by giving not less than five Business Days' prior written notice to the Facility Agent, prepay any Loan at any time in whole or in part.
- 10.3.2 A prepayment of part of a Loan drawn in US Dollars must be in a minimum amount of \$5,000,000 and an integral multiple of U.S. \$1,000,000.
- 10.3.3 A prepayment of part of a Loan drawn in Sterling must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.3.4 A prepayment of part of a Loan drawn in euros must be in a minimum amount of €5,000,000 and an integral multiple of €1,000,000.

10.4 Automatic cancellation

The Commitments of each Lender will be automatically cancelled at the close of business on the last day of the Availability Period.

10.5 Voluntary cancellation

- 10.5.1 The Company may, by giving not less than three Business Days' prior written notice to the Facility Agent, cancel the unutilised amount of the Total Commitments in whole or in part.
- 10.5.2 Partial cancellation of the Total Commitments must be in a minimum amount of £5,000,000 and an integral multiple of £1,000,000.
- 10.5.3 Any cancellation in part shall be applied against the Commitment of each Lender pro rata.

10.6 Involuntary prepayment and cancellation

- 10.6.1 If the Company is, or will be, required to pay to a Lender a Tax Payment or an Increased Cost, the Company may, while the requirement continues, give notice to the Facility Agent requesting prepayment and cancellation in respect of that Lender.
- 10.6.2 After notification under sub-clause 10.6.1 above:
 - (a) the Company must repay or prepay that Lender's share in each Loan made to it on the date specified in sub-clause 10.6.3 below; and
 - (b) the Commitments of that Lender will be immediately cancelled.
- 10.6.3 The date for repayment or prepayment of a Lender's share in a Loan will be the last day of the current Term for that Loan or, if earlier, the date specified by the Company in its notification.

10.6.4

- (a) If any Lender becomes a Defaulting Lender, the Company may, at any time whilst the Lender continues to be a Defaulting Lender, give the Facility Agent 5 Business Days' notice of cancellation of the Available Commitment of that Lender.
- (b) On the notice referred to in paragraph (a) above becoming effective, the Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
- (c) The Facility Agent shall as soon as practicable after receipt of a notice referred to in paragraph (a) above, notify all the Lenders.

10.7 Re-borrowing of Loans

Any voluntary prepayment of a Loan may be re-borrowed on the terms of this Agreement. Any mandatory or involuntary prepayment of a Loan may not be re-borrowed.

10.8 Miscellaneous provisions

- 10.8.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the relevant date(s) and the affected Loans and Commitments. The Facility Agent must notify the Lenders promptly of receipt of any such notice.
- 10.8.2 All prepayments made under Clause 10.2 (*Mandatory prepayment - change of control*) shall be applied *pro rata* to each Lender's participation in such Loan.
- 10.8.3 All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- 10.8.4 The Majority Lenders may agree a shorter notice period for a voluntary prepayment or a voluntary cancellation.
- 10.8.5 No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- 10.8.6 Subject to Clause 2.2 (*Increase*), no amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.

11. INTEREST

11.1 Calculation of interest

The rate of interest on each Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- 11.1.1 Margin; and
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11.1.2 LIBOR or, in relation to any Loan in euro, EURIBOR.

11.2 Payment of interest

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on each Loan made to it on the last day of each Term and also, if the Term is longer than six months, on the dates falling at six-monthly intervals after the first day of that Term.

11.3 Interest on overdue amounts

11.3.1 If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Facility Agent pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.

11.3.2 Interest on an overdue amount is payable at a rate determined by the Facility Agent to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted a Loan in the currency of the overdue amount. For this purpose, the Facility Agent may (acting reasonably):

- (a) select successive Terms of any duration of up to three months; and
- (b) determine the appropriate Quotation Day for that Term.

11.3.3 Notwithstanding sub-clause 11.3.2 above, if the overdue amount is a principal amount of a Loan and becomes due and payable prior to the last day of its current Term, then:

- (a) the first Term for that overdue amount will be the unexpired portion of that Term; and
- (b) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on that Loan.

After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with sub-clause 11.3.2 above.

11.3.4 Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

11.4 Notification of rates of interest

The Facility Agent must promptly notify each relevant Party of the determination of a rate of interest under this Agreement.

12. TERMS

12.1 Selection

- 12.1.1 Each Loan has one Term only.
- 12.1.2 The Company must select the Term for a Loan in the relevant Request.
- 12.1.3 Subject to the following provisions of this Clause, each Term for a Loan will be one, two, three or six months or for a period of one to thirty days or any other period agreed between the Company and the Lenders.
- 12.1.4 The Company shall not use its right under paragraph 12.1.3 above to select for a Loan a Term of less than one month's duration more than six times in any calendar year.
- 12.1.5 A Term for a Loan shall start on the Drawdown Date for that Loan.

12.2 **No overrunning the Final Maturity Date**

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

12.3 **Other adjustments**

- 12.3.1 The Facility Agent and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of Loans.
- 12.3.2 Subject to Clause 12.3.3 below, if two or more Terms end on the same date, those Loans will, unless the Company specifies to the contrary in the Request for the next Term, be consolidated into, and treated as, a single Loan on the last day of the Term.
- 12.3.3 Subject to Clause 4.4 (*Maximum Number*) and Clause 5.2 (*Completion of Requests*) if the Company requests in a Request that a Loan be divided into two or more Loans, that Loan will, on the last day of its Term, be so divided into the Base Currency Amounts specified in that Request, having an aggregate Base Currency Amount equal to the Base Currency Amount of the Loan immediately before its division.

12.4 **Notification**

The Facility Agent must notify the Company and the Lenders of the duration of each Term promptly after ascertaining its duration.

13. **MARKET DISRUPTION**

13.1 **Failure of a Reference Bank to supply a rate**

Subject to the other provisions of this Clause, if LIBOR or, if applicable, EURIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by the Specified Time on the Quotation Day, the applicable LIBOR or EURIBOR will be determined on the basis of the quotations of the remaining Reference Banks.

13.2 Market disruption

13.2.1 In this Clause, each of the following events is a **market disruption event**:

- (a) at or about noon on the Quotation Day for the relevant Term, LIBOR or if applicable EURIBOR is to be determined by reference to the Reference Banks and none or only one of the Reference Banks supplies a rate to the Facility Agent to determine LIBOR or, if applicable, EURIBOR for the relevant currency and Term; or
- (b) before close of business in London on the Quotation Day for the relevant Term, the Facility Agent receives notification from a Lender or Lenders whose participations in the relevant Loan exceed 50% of that Loan that the cost to it (or them) of funding its participation in that Loan from whatever source it may reasonably select would be in excess of LIBOR or, if applicable, EURIBOR for the relevant Term.

13.2.2 The Facility Agent must promptly notify the Company and the Lenders of a market disruption event.

13.2.3 After notification under sub-clause 13.2.1(a) above, the rate of interest on each Lender's share in the affected Loan for the relevant Term will be the aggregate of the applicable:

- (a) Margin; and
- (b) rate notified to the Facility Agent by that Lender as soon as practicable, and in any event before interest is due to be paid in respect of that Term, to be that which expresses as a percentage rate per annum the cost to that Lender of funding its share in that Loan from whatever source it may reasonably select.

13.3 Alternative basis of interest or funding

13.3.1 If a market disruption event occurs and the Facility Agent or the Company so requires, the Company and the Facility Agent must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan and any future Loan.

13.3.2 Any alternative basis agreed will be, with the prior consent of all the Lenders, binding on all the Parties.

14. TAX GROSS-UP AND INDEMNITIES

14.1 Definitions

14.1.1 In this Agreement:

"Qualifying Lender" means:

- (a) a Lender (other than a Lender within paragraph (b) below) which is beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document and is:
 - (i) a Lender:
 - (A) which is a bank (as defined for the purpose of section 879 of ITA) making an advance under a Finance Document; or
 - (B) in respect of an advance made under a Finance Document by a person that was a bank (as defined for the purpose of section 879 of ITA) at the time that that advance was made,

and which is within the charge to United Kingdom corporation tax as respects any payments of interest made in respect of that advance; or

- (ii) a Lender which is:
 - (A) a company resident in the United Kingdom for United Kingdom tax purposes;
 - (B) a partnership each member of which is:
 - (1) a company so resident in the United Kingdom; or
 - (2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
 - (C) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company; or
 - (iii) a Treaty Lender; or
 - (b) a Lender which is a building society (as defined for the purpose of section 880 of ITA) making an advance under a Finance Document.
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"Tax Confirmation" means a confirmation by a Lender that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

- (a) a company resident in the United Kingdom for United Kingdom tax purposes;
- (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or
- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.

"Tax Credit" means a credit against, relief or remission for, or repayment of any Tax.

"Treaty Lender" means a Lender which:

- (a) is treated as a resident of a Treaty State for the purposes of the Treaty;
- (b) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender's participation in the Loan is effectively connected; and
- (c) meets all other conditions which must be met under the Treaty for residents of such Treaty State to obtain full exemption from tax on interest imposed by the United Kingdom, except that for this purpose it shall be assumed that the following are satisfied:
 - (i) any condition which relates (expressly or by implication) to the amounts or terms of any Loan or the Finance Documents or any condition which relates (expressly or by implication) to there not being a special relationship between the Company and the Finance Party or between them both and another person; and
 - (ii) any necessary procedural formality.

"Treaty State" means a jurisdiction having a double taxation agreement (a "Treaty") with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

"UK Non-Bank Lender" means where a Lender becomes a Party after the day on which this Agreement is entered into, a Lender which gives a Tax Confirmation in the assignment agreement or Transfer Certificate which it executes on becoming a Party.

14.1.2 Unless a contrary indication appears, in this Clause 14 a reference to "determines" or "determined" means a determination made in the absolute discretion of the person making the determination.

14.2 Tax gross-up

14.2.1 The Company shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.

14.2.2 The Company shall promptly upon becoming aware that it must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Facility Agent accordingly. Similarly, a Lender shall notify the Facility Agent on becoming so aware in respect of a payment payable to that Lender. If the Facility Agent receives such notification from a Lender it shall notify the Company.

14.2.3 If a Tax Deduction is required by law to be made by the Company, the amount of the payment due from the Company shall be increased to an amount which (after making any Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.

14.2.4 A payment shall not be increased under sub-clause 14.2.3 above by reason of a Tax Deduction on account of Tax imposed by the United Kingdom, if on the date on which the payment falls due:

- (a) the payment could have been made to the relevant Lender without a Tax Deduction if the Lender had been a Qualifying Lender, but on that date that Lender is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Lender under this Agreement in (or in the interpretation, administration, or application of) any law or Treaty, or any published practice or published concession of any relevant taxing authority; or
- (b) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:
 - (i) an officer of HM Revenue & Customs has given (and not revoked) a direction (a "**Direction**") under section 931 of the ITA which relates to the payment and that Lender has received from the Company a certified copy of that Direction; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if that Direction had not been made; or
- (c) the relevant Lender is a Qualifying Lender solely by virtue of paragraph (a)(ii) of the definition of Qualifying Lender and:

- (i) the relevant Lender has not given a Tax Confirmation to the Company; and
 - (ii) the payment could have been made to the Lender without any Tax Deduction if the Lender had given a Tax Confirmation to the Company on the basis that the Tax Confirmation would have enabled the Company to have formed a reasonable belief that the payment was an "excepted payment" for the purpose of section 930 of the ITA; or
 - (d) the relevant Lender is a Treaty Lender and the Company making the payment is able to demonstrate that the payment could have been made to the Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 14.2.7 below.
- 14.2.5 If the Company is required to make a Tax Deduction, the Company shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- 14.2.6 Within thirty days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Company making that Tax Deduction shall deliver to the Facility Agent for the Finance Party entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Finance Party that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.
- 14.2.7
- (a) Subject to paragraph (b) below, a Treaty Lender and the Company which makes a payment to which that Treaty Lender is entitled shall co-operate in completing any procedural formalities necessary for that Company to obtain authorisation to make that payment without a Tax Deduction.
 - (b) Nothing in paragraph (a) above shall require a Treaty Lender to:
 - (i) register under the HMRC DT Treaty Passport scheme;
 - (ii) apply the HMRC DT Treaty Passport scheme to any Loan if it has so registered; or
 - (iii) file Treaty forms if it has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with paragraph 14.2.10 below or paragraph 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) and the Company making that payment has not complied with its obligations under paragraph 14.2.11 below or paragraph 14.6.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).
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- 14.2.8 A UK Non-Bank Lender which becomes a Party on the day on which this Agreement is entered into gives a Tax Confirmation to the Company by entering into this Agreement.
- 14.2.9 A UK Non-Bank Lender shall promptly notify the Company and the Facility Agent if there is any change in the position from that set out in the Tax Confirmation.
- 14.2.10 A Treaty Lender which becomes a Party on the day on which this Agreement is entered into that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) by including its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*Original Parties*).
- 14.2.11 Where a Lender includes the indication described in paragraph 14.2.10 above in Schedule 1 (*Original Parties*), the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the date of this Agreement and shall promptly provide the Lender with a copy of that filing provided that the Company shall not be liable in respect of any non-compliance with its obligations under this Clause 14.2.11 where such non-compliance is due to circumstances beyond the control of the Company (including, without limitation, any delay, failure or omission on the part of the relevant Lender or the Facility Agent to comply with any obligation owed to the Company, or to any inaccuracy in any information provided by the relevant Lender or the Facility Agent in connection with the DT Treaty Passport scheme).
- 14.2.12 Any Lender which has confirmed that it is entitled to use its DT Treaty Passport in accordance with Clause 14.2.10 or Clause 14.6.1 will reasonably promptly notify the Facility Agent and the Company if at any time it ceases to hold a passport under the HMRC DT Treaty Passport scheme or if it ceases to be able to use such passport as a Lender.
- 14.2.13 If a Lender has not included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.2.10 above or sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*), the Company shall not file any form relating to the HMRC DT Treaty Passport scheme in respect of that Lender's Commitment or its participation in any Loan.

14.3 Tax indemnity

- 14.3.1 Except as provided below, the Company must, within three Business Days of demand, indemnify a Finance Party against any loss or liability which that Finance Party (in its absolute discretion) determines will be or has been suffered (directly or indirectly) by that Finance Party for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.

14.3.2 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party under the laws of the jurisdiction in which:

(a) that Finance Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Finance Party is treated as resident for tax purposes; or

(b) that Finance Party's Facility Office is located in respect of amounts received or receivable in that jurisdiction, if that Tax is imposed on or calculated by reference to the net income received or receivable by that Finance Party. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Finance Party, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.

14.3.3 Sub-clause 14.3.1 above does not apply to any Tax assessed on a Finance Party to the extent the loss or liability:

(a) is compensated for by an increased payment under Clause 14.2 (*Tax gross-up*);

(b) would have been compensated for by an increased payment under Clause 14.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 14.2 (*Tax gross-up*) applied; or

(c) relates to a FATCA Deduction required to be made by a Party.

14.3.4 A Finance Party making, or intending to make, a claim under sub-clause 14.3.1 above must promptly notify the Company of the event which will give, or has given, rise to the claim.

14.4 Tax Credit

If the Company makes a Tax Payment and the relevant Finance Party has obtained, used and retained any Tax Credit that is attributable to that Tax Payment, then, in its discretion (acting reasonably) it can do so without any further adverse consequences for it, that Finance Party must pay an amount to the Company which that Finance Party determines (in its discretion, acting reasonably) will leave it (after that payment) in the same after-tax position as it would have been in if the Tax Payment had not been required to be made by the Company. The relevant Finance Party shall take those steps it considers in its opinion reasonable to seek and claim any tax credit.

14.5 Lender Status Confirmation

Each Lender which becomes a Party to this Agreement after the date of this Agreement shall indicate, in the Transfer Certificate, assignment agreement or Increase Confirmation which it executes on becoming a Party, and for the benefit of the Facility Agent and without liability to the Company, which of the following categories it falls in:

14.5.1 not a Qualifying Lender;

14.5.2 a Qualifying Lender (other than a Treaty Lender); or

14.5.3 a Treaty Lender.

If a New Lender fails to indicate its status in accordance with this Clause 14.5 then such New Lender shall be treated for the purposes of this Agreement as if it is not a Qualifying Lender until such time as it notifies the Facility Agent which category applies (and the Facility Agent, upon receipt of such notification, shall inform the Company). For the avoidance of doubt, a Transfer Certificate or assignment agreement shall not be invalidated by any failure of a Lender to comply with this Clause 14.5.

14.6 HMRC DT Treaty Passport scheme confirmation

14.6.1 A New Lender that is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme, and which wishes that scheme to apply to this Agreement, shall include an indication to that effect (for the benefit of the Facility Agent and without liability to the Company) in the Transfer Certificate or Increase Confirmation which it executes by including its scheme reference number and its jurisdiction of tax residence in that Transfer Certificate or Increase Confirmation.

14.6.2 Where a New Lender includes the indication described in sub-clause 14.6.1 above in the relevant Transfer Certificate or Increase Confirmation the Company shall file a duly completed form DTTP2 in respect of such Lender with HM Revenue & Customs within 30 days of the relevant Transfer Date and shall promptly provide the Lender with a copy of that filing.

14.7 Stamp taxes

The Company shall pay and, within three Business Days of demand, indemnify each Finance Party against any cost, loss or liability that Finance Party incurs in relation to all stamp duty, registration and other similar Taxes payable in respect of any Finance Document, except for any such Tax payable in respect of a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document.

14.8 VAT

14.8.1 All amounts set out, or expressed in a Finance Document to be payable by any Party to a Finance Party which (in whole or in part) constitute the consideration for a supply or supplies for VAT purposes shall be deemed to be exclusive of any VAT which is chargeable on such supply or supplies, and accordingly, subject to sub-clause 14.8.2 below, if VAT is or becomes chargeable on any supply made by any Finance Party to any Party under a Finance Document, that Party shall

pay to the Finance Party (in addition to and at the same time as paying any other consideration for such supply) an amount equal to the amount of such VAT (and such Finance Party shall promptly provide an appropriate VAT invoice to such Party).

- 14.8.2 If VAT is or becomes chargeable on any supply made by any Finance Party (the "**Supplier**") to any other Finance Party (the "**Recipient**") under a Finance Document, and any Party other than the Recipient (the "**Subject Party**") is required by the terms of any Finance Document to pay an amount equal to the consideration for such supply to the Supplier (rather than being required to reimburse the Recipient in respect of that consideration), such Party shall also pay to the Supplier (in addition to and at the same time as paying such amount) an amount equal to the amount of such VAT. The Recipient will promptly pay to the Subject Party an amount equal to any credit or repayment obtained by the Recipient from the relevant tax authority which the Recipient reasonably determines is in respect of such VAT.
- 14.8.3 Where a Finance Document requires any Party to reimburse or indemnify a Finance Party for any cost or expense, that Party shall reimburse or indemnify (as the case may be) such Finance Party for the full amount of such cost or expense, including such part thereof as represents VAT, save to the extent that such Finance Party reasonably determines that it is entitled to credit or repayment in respect of such VAT from the relevant tax authority.
- 14.8.4 Any reference in this Clause 14.8 to any Party shall, at any time when such Party is treated as a member of a group for VAT purposes, include (where appropriate and unless the context otherwise requires) a reference to the representative member of such group at such time (the term "representative member" to have the same meaning as in the Value Added Tax Act 1994).

14.9 **FATCA Information**

- 14.9.1 Subject to sub-clause 14.9.3 below, each Party shall, within ten Business Days of a reasonable request by another Party:
- (a) confirm to that other Party whether it is:
 - (i) a FATCA Exempt Party; or
 - (ii) not a FATCA Exempt Party; and
 - (b) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA;
 - (c) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.
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- 14.9.2 If a Party confirms to another Party pursuant to paragraph (a) of sub-clause 14.9.1 above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not, or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- 14.9.3 Sub-clause 14.9.1 above shall not oblige any Finance Party to do anything, and paragraph (c) of sub-clause 14.9.1 above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (a) any law or regulation;
 - (b) any fiduciary duty; or
 - (c) any duty of confidentiality.
- 14.9.4 If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a) or (b) of sub-clause 14.9.1 above (including, for the avoidance of doubt, where sub-clause 14.9.3 above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested confirmation, forms, documentation or other information.

14.10 FATCA Deduction

- 14.10.1 Each Party may make any FATCA Deduction it is required to make by FATCA, and any payment required in connection with that FATCA Deduction, and no Party shall be required to increase any payment in respect of which it makes such a FATCA Deduction, or otherwise compensate the recipient of the payment for that FATCA Deduction.
- 14.10.2 Each Party shall promptly, upon becoming aware that it must make a FATCA Deduction (or that there is any change in the rate or the basis of such FATCA Deduction), notify the Party to whom it is making the payment and, in addition, shall notify the Company, the Facility Agent and the other Finance Parties.

15. INCREASED COSTS

15.1 Increased Costs

Except as provided below in this Clause, the Company must pay to a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 15.1.1 the introduction of, or any change in, or any change in the interpretation or application of, any law or regulation;
- 15.1.2 compliance with any law or regulation made after the date of this Agreement **provided that** for the purposes of this Agreement and any other Finance

Document, Dodd-Frank shall be deemed to be a law or regulation made after the date of this Agreement; or

- 15.1.3 the implementation or application of, or compliance with, Basel III or CRD IV or any law or regulation that implements or applies Basel III or CRD IV.

15.2 Exceptions

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 15.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 15.2.2 a Tax on the overall net income of a Finance Party or any of its Affiliates;
- 15.2.3 attributable to a FATCA Deduction required to be made by a Party;
- 15.2.4 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation;
- 15.2.5 attributable to the implementation or application of or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee in June 2004 in the form existing on the date of this Agreement (but excluding any amendment arising out of Basel III) (**Basel II**) or any other law or regulation which implements Basel II (whether such implementation, application or compliance is by a government, regulator, Finance Party or any of its Affiliates); or
- 15.2.6 not notified by the relevant Finance Party to the Facility Agent and the Company within three Months of that Finance Party becoming aware of such Increased Cost.

15.3 Claims

A Finance Party intending to make a claim for an Increased Cost must notify the Company promptly of the circumstances giving rise to, and the amount of, the claim.

16. MITIGATION

16.1 Mitigation

- 16.1.1 Each Finance Party must, in consultation with the Company (other than upon the occurrence of an event referred to at paragraph (d) below where no such consultation is required), take all reasonable steps to mitigate any circumstances which arise and which result or would result in the Facility ceasing to be available or:
 - (a) any Tax Payment or Increased Cost being payable to that Finance Party;

- (b) that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- (c) that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank; or
- (d) the occurrence of any market disruption event,

including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.

- 16.1.2 A Finance Party is not obliged to take any step under this Clause 16 if, in the opinion of that Finance Party (acting reasonably), to do so might be prejudicial to it.
- 16.1.3 Each Finance Party must promptly notify the Company of any circumstances as described in paragraphs (a) to (d) of sub-clause 16.1.1 of this Clause 16.1.
- 16.1.4 The Company must indemnify each Finance Party for all costs and expenses reasonably incurred by it as a result of any step taken under this Clause 16.1.
- 16.1.5 This Clause does not in any way limit the obligations of the Company under the Finance Documents.

16.2 Substitution

Notwithstanding Clause 16.1 (*Mitigation*), if any circumstances arise which result in:

- 16.2.1 any Tax Payment or Increased Cost being payable to that Finance Party;
- 16.2.2 that Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- 16.2.3 that Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank;
- 16.2.4 the occurrence of any market disruption event; or
- 16.2.5 any Lender becoming a Non-Consenting Lender,

then the Company, at its expense, at any time within 180 days after the occurrence of the relevant event or circumstance, so long as no Default is outstanding, may by notice to the Facility Agent and such Finance Party require it (and, if applicable, its Affiliate) to (and to the extent permitted by law such Finance Party or, if applicable, its Affiliate shall) novate pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement to a bank, financial institution, trust, fund or other entity (a "**Replacement Finance Party**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations of the transferring Finance Party (including the assumption of the transferring Finance Party's participations or unfunded participations (as the case may be) on the

same basis as the transferring Finance Party) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Finance Party's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable to such Finance Party under the Finance Documents **provided that:**

- 16.2.6 the Company shall have no right to replace the Facility Agent;
- 16.2.7 neither the Facility Agent nor such Finance Party shall have any obligation to the Company to find a Replacement Finance Party;
- 16.2.8 the transfer must take place no later than 14 days after the notice referred to above;
- 16.2.9 in no event shall such Finance Party be required to pay or surrender to the Replacement Finance Party any of the fees received by such Finance Party pursuant to the Finance Documents; and
- 16.2.10 the Finance Party shall only be obliged to transfer its rights and obligations pursuant to this Clause 16.2 once it is satisfied that it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations in relation to that transfer to the Replacement Finance Party.

16.3 Conduct of business by a Finance Party

No term of this Agreement will:

- 16.3.1 interfere with the right of any Finance Party to arrange its affairs (Tax or otherwise) in whatever manner it thinks fit or oblige any Finance Party to investigate or claim any Tax Credit; or
- 16.3.2 oblige any Finance Party to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

17. PAYMENTS

17.1 Place

Unless a Finance Document specifies that payments under it are to be made in another manner, all payments by a Party (other than the Facility Agent) under the Finance Documents, excluding a payment under the terms of an Ancillary Document, must be made to the Facility Agent to its account at such office or bank:

- 17.1.1 in the principal financial centre of the country of the relevant currency; or
 - 17.1.2 in the case of euro, in the principal financial centre of a Participating Member State or London,
- as it may notify to that Party for this purpose by not less than five Business Days' prior notice.

17.2 Funds

Payments under the Finance Documents to the Facility Agent must be made for value on the due date at such times and in such funds as the Facility Agent may specify to the Party concerned as being customary at the time for the settlement of transactions in the relevant currency in the place of payment.

17.3 Distribution

17.3.1 Each payment received by the Facility Agent under the Finance Documents for another Party must, except as provided below, be made available by the Facility Agent to that Party by payment (as soon as practicable after receipt) to its account with such office or bank:

- (a) in the principal financial centre of the country of the relevant currency; or
- (b) in the case of euro, in the principal financial centre of a Participating Member State or London,

as it may notify to the Facility Agent for this purpose by not less than five Business Days' prior notice.

17.3.2 The Facility Agent may apply any amount received by it for the Company in or towards payment (as soon as practicable after receipt) of any amount due from the Company under the Finance Documents or in or towards the purchase of any amount of any currency to be so applied.

17.3.3 Where a sum is paid to the Facility Agent under this Agreement for another Party, the Facility Agent is not obliged to pay that sum to that Party until it has established that it has actually received it. However, the Facility Agent may assume that the sum has been paid to it, and, in reliance on that assumption, make available to that Party a corresponding amount. If it transpires that the sum has not been received by the Facility Agent, that Party must immediately on demand by the Facility Agent refund any corresponding amount made available to it together with interest on that amount from the date of payment to the date of receipt by the Facility Agent at a rate calculated by the Facility Agent to reflect its cost of funds.

17.4 Currency of account

17.4.1 Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Clause.

17.4.2 Interest is payable in the currency in which the relevant amount in respect of which it is payable is denominated.

- 17.4.3 A repayment or prepayment of any principal amount (or overdue amount) is payable in the currency in which that principal amount (or overdue amount) is denominated on its due date.
- 17.4.4 Amounts payable in respect of costs and expenses and Taxes are payable in the currency in which they are incurred.
- 17.4.5 Each other amount payable under the Finance Documents is payable in Sterling.
- 17.4.6 Any amount expressed to be payable in a currency other than Sterling shall be paid in that other currency.

17.5 **No set-off or counterclaim**

All payments made by the Company under the Finance Documents must be made without set-off or counterclaim.

17.6 **Business Days**

- 17.6.1 If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Facility Agent determines is market practice.
- 17.6.2 During any extension of the due date for payment of any principal (or overdue amount) under this Agreement interest is payable on that principal (or overdue amount) at the rate payable on the original due date.

17.7 **Impaired Agent**

- 17.7.1 If, at any time, the Facility Agent becomes an Impaired Agent, the Company or a Lender which is required to make a payment under the Finance Documents to the Facility Agent in accordance with Clause 17.1 (*Place*) may instead either pay that amount direct to the required recipient or pay that amount to an interest bearing account held with an Acceptable Bank and in relation to which no Insolvency Event has occurred and is continuing, in the name of the Company or the Lender making the payment and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents. In each case such payments must be made on the due date for payment under the Finance Documents.
- 17.7.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the beneficiaries of that trust account *pro rata* to their respective entitlements.
- 17.7.3 A Party which has made a payment in accordance with this Clause 17.7 shall be discharged of the relevant payment obligation under the Finance Documents and shall not take any credit risk with respect to the amounts standing to the credit of the trust account.

- 17.7.4 Promptly upon the appointment of a successor Facility Agent in accordance with Clause 23.14 (*Replacement of the Facility Agent*), each Party which has made a payment to a trust account in accordance with this Clause 17.7 shall give all requisite instructions to the bank with whom the trust account is held to transfer the amount (together with any accrued interest) to the successor Facility Agent for distribution in accordance with Clause 17.3 (*Distribution*).
- 17.7.5 For the purposes of this Clause 17.7 only, an Acceptable Bank shall include any bank or financial institution approved by the Facility Agent or, if the Facility Agent is an Impaired Agent, the Majority Lenders.

17.8 Partial payments

- 17.8.1 If any Administrative Party receives a payment insufficient to discharge all the amounts then due and payable by the Company under the Finance Documents, the Administrative Party must apply that payment towards the obligations of the Company under the Finance Documents in the following order:
- (a) **first**, in or towards payment pro rata of any unpaid fees, costs and expenses of the Administrative Parties under the Finance Documents;
 - (b) **secondly**, in or towards payment pro rata of any accrued interest or fee due but unpaid under this Agreement;
 - (c) **thirdly**, in or towards payment pro rata of any principal amount due but unpaid under this Agreement; and
 - (d) **fourthly**, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- 17.8.2 The Facility Agent must, if so directed by all the Lenders, vary the order set out in paragraphs (a) to (d) of sub-clause 17.8.1 of this Clause 17.8.
- 17.8.3 This Clause will override any appropriation made by the Company.

17.9 Timing of payments

If a Finance Document does not provide for when a particular payment is due, that payment will be due within three Business Days of demand by the relevant Finance Party.

18. REPRESENTATIONS

18.1 Representations

The representations set out in this Clause are made by the Company to each Finance Party on the date of this Agreement.

18.2 Status

It is a limited liability company, duly incorporated and validly existing under the Companies Act 2006 in England and Wales.

18.3 Powers and authority

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

18.4 Legal validity

Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

18.5 Non-conflict

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with any borrowing or other power or restriction granted or imposed by:

18.5.1 any law or regulation applicable to it and violation of which has or is likely to have a Material Adverse Effect; or

18.5.2 its constitutional documents.

18.6 No default

18.6.1 No Event of Default is outstanding or might reasonably be expected to result from the making of any Loan.

18.6.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which might have a Material Adverse Effect.

18.7 Authorisations

All authorisations required by it (including any authorisations required under PUHCA or the Act, if any):

18.7.1 in connection with the entry into, performance, validity and enforceability of, and the transactions contemplated by, the Finance Documents; and

18.7.2 to make the Finance Documents admissible in evidence in England and Wales,

have been obtained or effected (as appropriate) and are in full force and effect.

18.8 Financial statements

Its audited consolidated financial statements most recently delivered to the Facility Agent (which, at the date of this Agreement, are the Original Financial Statements):

18.8.1 have been prepared in accordance with accounting principles and practices generally accepted in its jurisdiction of incorporation, consistently applied; and

18.8.2 fairly represent its consolidated financial condition as at the date to which they were drawn up, except, in each case, as disclosed to the contrary in those financial statements.

18.9 **No material adverse change**

Other than as disclosed in writing to the Arranger prior to the date of this Agreement there has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

18.10 **Litigation**

No litigation, arbitration or administrative proceedings are current or, to its knowledge, pending or threatened, which, if adversely determined, are reasonably likely to have a Material Adverse Effect.

18.11 **Winding Up**

No meeting has been convened for its winding-up and, so far as it is aware, no petition, application or the like is outstanding for its winding-up.

18.12 **Non-Violation of other Agreements:**

Its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Agreement do not and will not violate, to an extent or in a manner which has or is likely to have a Material Adverse Effect on it, any agreement to which it is a party or which is binding on it.

18.13 **Governing Law and Enforcement**

18.13.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

18.13.2 Any judgement obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

18.14 **Deduction of Tax**

It is not required to make any deduction for or on account of Tax from any payment it may make under any Finance Document to a Lender which is:

18.14.1 a Qualifying Lender:

- (a) falling within paragraph (a)(i) of the definition of Qualifying Lender; or

- (b) except where a Direction has been given under section 931 of the ITA in relation to the payment concerned, falling within paragraph (a)(ii) of the definition of Qualifying Lender; or
- (c) falling within paragraph (b) of the definition of Qualifying Lender or;

18.14.2 a Treaty Lender and the payment is one specified in a direction given by the Commissioners of Revenue & Customs under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970/488).

18.15 No filing or stamp taxes

Under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of a Lender's rights or obligations under a Finance Document) or the transactions contemplated by the Finance Documents.

18.16 No misleading information

Save as disclosed in writing to the Facility Agent and the Arrangers prior to the Effective Date (as defined in the Amendment Agreement):

- 18.16.1 any written factual information provided by any member of the Group or on its behalf was true and accurate in all material respects as at the date of the relevant report or document or as at the date (if any) at which it is stated to be given;
- 18.16.2 the financial projections provided have been prepared on the basis of recent historical information and on the basis of reasonable assumptions as at the date provided; and
- 18.16.3 no event or circumstance has occurred or arisen and no information has been given or withheld that results in the information, opinions, intentions, forecasts or projections contained in such written information being untrue or misleading in any material respect.

18.17 Pari Passu ranking

Its payment obligations under the Finance Documents rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

18.18 Licence

The Licence is in full force and effect and there is no investigation or proceeding current, pending or threatened which could, if adversely determined, result in the termination of the Licence.

18.19 Sanctions

No member of the Group or, to the knowledge of the Company, any director, officer, employee, agent, affiliate or representative of any member of the Group is an individual or entity (the "**Person**") currently the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "**OFAC**"), the United Nations Security Council (the "**UNSC**"), the European Union, Her Majesty's Treasury (the "**HMT**"), or other relevant sanctions authority (collectively, "**Sanctions**"), nor is any member of the Group located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions. The Company represents for itself and on behalf of other members of the Group that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

18.20 **Anti-Corruption**

Each member of the Group has conducted its business in compliance with applicable anti-corruption laws and has instituted and maintained policies and procedures designed to promote and achieve compliance by that member of the Group with such laws.

18.21 **Times for making representations**

18.21.1 The representations set out in this Clause are made by the Company on the date of this Agreement.

18.21.2 The Repeating Representations are deemed to be repeated by the Company on the date of each Request and the first day of each Term.

18.21.3 When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

19. **INFORMATION COVENANTS**

19.1 **Financial statements**

19.1.1 The Company must supply to the Facility Agent (in sufficient copies for all the Lenders if the Facility Agent so requests):

- (a) its audited consolidated financial statements for each of its financial years; and
- (b) its interim consolidated financial statements for the first half-year of each of its financial years.

19.1.2 All financial statements must be supplied as soon as they are available and:

- (a) in the case of the Company's audited consolidated financial statements, within 180 days; and
- (b) in the case of the Company's interim financial statements, within 90 days,

of the end of the relevant financial period.

19.2 Form of Financial Statement

If any financial statement delivered or to be delivered to the Facility Agent under Clause 19.1 is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

19.2.1 the Company and the Facility Agent (on behalf of and after consultation with all the Lenders) shall, on the request of the Facility Agent or the Company, negotiate in good faith with a view to agreeing such amendments to the financial ratios and/or the definitions of the terms used in Clause 20 (*Financial covenants*) as are necessary to give the Lenders comparable protection to that contemplated at the date of this Agreement;

19.2.2 if amendments are agreed by the Company and the Majority Lenders within 25 days, those amendments shall take effect in accordance with the terms of that agreement; and

19.2.3 if such amendments are not so agreed within 25 days, the Company shall:

- (a) within 30 days after the end of that 25 day period; and
- (b) with all subsequent financial statements to be delivered to the Facility Agent under Clause 19.1,

deliver to the Facility Agent details of all such adjustments as need to be made to the relevant financial statements to bring them into line with the Companies Act 2006 (as in effect on the date of this Agreement) and Applicable Accounting Principles.

19.3 Compliance Certificate

19.3.1 The Company must supply to the Facility Agent a Compliance Certificate with each set of its financial statements sent to the Facility Agent under this Agreement.

19.3.2 Each Compliance Certificate must be signed by two directors of the Company.

19.4 Information - miscellaneous

The Company must supply to the Facility Agent, in sufficient copies for all the Lenders if the Facility Agent so requests:

19.4.1 copies of all documents despatched by the Company to its creditors generally (or any class of them) in each case at the same time as they are despatched;

19.4.2 promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any

member of the Group and which might, if adversely determined, have a Material Adverse Effect;

- 19.4.3 promptly, details of the loss of the Licence or any communication from OFGEM or other government agency regarding any potential or threatened loss of the Licence;
- 19.4.4 promptly on receiving them, details of any modification of an Authorisation or other material regulatory notices from OFGEM or other government agency;
- 19.4.5 a copy of all material information relating to any matter which is reasonably likely to have a Material Adverse Effect which the Company supplies to, or receives from, any applicable regulatory body (including OFGEM) (at the same time as it is supplied to, or promptly following its receipt from, the applicable regulatory body);
- 19.4.6 written notice of the details of any proposed changes to the Licence as soon as reasonably practicable after becoming aware of the same (other than changes of a formal, minor or technical nature);
- 19.4.7 within 5 Business Days of receiving them, details of any change to the rating by Moody's or Standard & Poor's of the long-term, unsecured and non credit-enhanced debt obligations of the Company;
- 19.4.8 the Company shall deliver to the Facility Agent at such times as those reports are prepared in order to comply with the then current statutory or auditing requirements (as applicable either to the trustees of any relevant schemes or to the Company), actuarial reports in relation to all pension schemes mentioned in sub-clause 21.15.1 of Clause 21.15 (*Pensions*). This obligation shall apply to only those pension schemes (or groups of the Electricity Supply Pension Scheme) of which the Company is at that time a participating employer and to those reports which have been provided to the Company;
- 19.4.9 promptly on request, a list of the then current Material Subsidiaries; and
- 19.4.10 promptly on request, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Facility Agent may reasonably request.

19.5 Notification of Default

- 19.5.1 The Company must notify the Facility Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
 - 19.5.2 Promptly on request by the Facility Agent, the Company must supply to the Facility Agent a certificate signed by two of its directors on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.
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1.6 Use of websites

19.6.1 Except as provided below, the Company may deliver any information under this Agreement to a Lender by posting it on to an electronic website if:

- (a) the Facility Agent and the Lender agree;
- (b) the Company and the Facility Agent designate an electronic website for this purpose;
- (c) the Company notifies the Facility Agent of the address of and password for the website; and
- (d) the information posted is in a format agreed between the Company and the Facility Agent.

The Facility Agent must supply each relevant Lender with the address of and password for the website.

19.6.2 Notwithstanding the above, the Company must supply to the Facility Agent in paper form a copy of any information posted on the website together with sufficient copies for:

- (a) any Lender not agreeing to receive information via the website; and
- (b) any other Lender within ten Business Days of request by that Lender.

19.6.3 The Company must promptly upon becoming aware of its occurrence, notify the Facility Agent if:

- (a) the website cannot be accessed;
- (b) the website or any information on the website is infected by any electronic virus or similar software;
- (c) the password for the website is changed; or
- (d) any information to be supplied under this Agreement is posted on the website or amended after being posted.

If the circumstances in paragraphs (a) or (b) above occur, the Company must supply any information required under this Agreement in paper form.

19.7 Know your customer requirements

19.7.1 If:

- (a) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation made after the date of this Agreement;

- (b) any change in the status of the Company after the date of this Agreement; or
- (c) a proposed assignment or transfer by a Lender of any of its rights and obligations under this Agreement to a party that is not a Lender prior to such assignment or transfer,

obliges the Facility Agent or any Lender (or, in the case of paragraph (c) above, any prospective new Lender) to comply with "know your customer" or similar identification procedures in circumstances where the necessary information is not already available to it, the Company shall promptly upon the request of the Facility Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Facility Agent (for itself or on behalf of any Lender) or any Lender (for itself or, in the case of the event described in paragraph (iii) above, on behalf of any prospective new Lender) in order for the Facility Agent, such Lender or, in the case of the event described in paragraph (iii) above, any prospective new Lender to carry out and be satisfied it has complied with all necessary "know your customer" or other similar checks under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

20. FINANCIAL COVENANTS

20.1 Definitions

In this Clause:

"**Cash**" means, at any time, cash denominated in a currency of the United States of America, the United Kingdom, any member state of the European Union or any Participating Member State in hand or at bank and (in the latter case) credited to an account in the name of a member of the Group with an Acceptable Bank and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable:
 - (i) if that cash is deposited with a Lender, within 180 days after the relevant date of calculation; or
 - (ii) if that cash is deposited with any other lender or financial institution, within 45 days after the relevant date of calculation;
 - (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
 - (c) there is no Security Interest over that cash other than Security Interests permitted under sub-clause 21.5.3(k) of Clause 21.5 (*Negative pledge*); and
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- (d) the cash is freely and (except as mentioned in paragraph (a) above) immediately available to be applied in repayment or prepayment of the Facility.

"Cash Equivalent Investments" means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of an Acceptable Jurisdiction or by an instrumentality or agency of any of them having an equivalent credit rating, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
 - (i) for which a recognised trading market exists;
 - (ii) issued by an issuer incorporated in an Acceptable Jurisdiction;
 - (iii) which matures within one year after the relevant date of calculation; and
 - (iv) which has a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England (or their dematerialised equivalent) and accepted by an Acceptable Bank;
- (e) any investment in money market funds which:
 - (i) have a credit rating of either A-1 or higher by Standard & Poor's Rating Services or F1 or higher by Fitch Ratings Ltd or P-1 or higher by Moody's Investor Services Limited;
 - (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above; and
 - (iii) can be turned into cash on not more than 30 days' notice; or
- (f) any other debt security approved by the Majority Lenders,

in each case, denominated in a currency of an Acceptable Jurisdiction and to which any member of the Group is alone (or together with other members of the Group beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest (other than Security Interests permitted under sub-clauses 21.5.3(l) and (k) of Clause 21.5 (*Negative pledge*)).

"**Consolidated EBITDA**" means the consolidated net pre-taxation profits of the Group for a Measurement Period as adjusted by:

- (a) adding back Interest Payable;
- (b) taking no account of any exceptional or extraordinary item;
- (c) excluding any amount attributable to minority interests;
- (d) adding back depreciation and amortisation; and
- (e) taking no account of any revaluation of an asset or any loss or gain over book value arising on the disposal of an asset (otherwise than in the ordinary course of trading) by a member of the Group during that Measurement Period.

"**Interest Payable**" means, in relation to any Measurement Period, all interest payable and similar charges of the Group expressed in the Base Currency and determined on a consolidated basis in accordance with Applicable Accounting Principles but excluding interest payable or similar charges of the Group in relation to intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

"**Measurement Period**" means each period of twelve months ending on 31 March or 30 September.

"**Regulatory Asset Base**" means at any date, the regulatory asset base of the Company for such date as last determined and notified to the Company by OFGEM (interpolated as necessary and adjusted for additions to the regulatory asset base and adjusted as appropriate for out-turn inflation / regulatory depreciation).

"**Total Net Debt**" means, at any time, the consolidated Financial Indebtedness of the Group which is required to be accounted for as debt in the consolidated annual financial statements of the Group less the aggregate at such time of all Cash or Cash Equivalent Investments held by any member of the Group excluding intra-Group items, loans from Affiliates and shareholder loans to the extent that such intra-Group items, loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed.

20.2 Interpretation

- 20.2.1 Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.
- 20.2.2 Any amount in a currency other than the Base Currency is to be taken into account at its Base Currency equivalent calculated on the basis of:
 - (a) the Agent's Spot Rate of Exchange on the day the relevant amount falls to be calculated; or

- (b) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.

20.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

20.3 Interest cover

The Company must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Measurement Period, less than 3 to 1.

20.4 Asset Cover

The Company must ensure that on the last day of each Measurement Period, Total Net Debt does not exceed 85% of its Regulatory Asset Base.

21. GENERAL COVENANTS

21.1 General

The Company agrees to be bound by the covenants set out in this Clause relating to it and, where the covenant is expressed to apply to each Material Subsidiary or each member of the Group, the Company must ensure that each of its Material Subsidiaries or each of its Subsidiaries, as the case may be, performs that covenant.

21.2 Authorisations

The Company must promptly obtain, maintain and comply with the terms of any authorisation required under any law or regulation to enable it to perform its obligations under, or, subject to the Reservations, for the validity or enforceability of, any Finance Document.

21.3 Compliance with laws

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so is reasonably likely to have a Material Adverse Effect.

21.4 Pari passu ranking

The Company must ensure that its payment obligations under the Finance Documents rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

21.5 Negative pledge

In this Clause 21.5, "**Quasi-Security Interest**" means an arrangement or transaction described in sub-clause 21.5.2 below.

21.5.1 Except as provided below, neither the Company nor any Material Subsidiary may create or allow to exist any Security Interest or Quasi-Security Interest on any of its assets.

21.5.2 Except as provided below, neither the Company nor any Material Subsidiary may:

- (a) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Company or any Material Subsidiary;
- (b) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
- (c) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or
- (d) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

21.5.3 Sub-clauses 21.5.1 and 21.5.2 do not apply to:

- (a) any lien arising by operation of law and in the ordinary course of trading;
 - (b) any netting or set-off arrangement entered into by the Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances (including a Multi-Account Overdraft) of members of the Group;
 - (c) any Security Interest or Quasi-Security Interest created under or in connection with or arising out of the Balancing and Settlement Code or any transactions or arrangements entered into in connection with the management of risks relating thereto;
 - (d) in respect of overdue amounts which have not been overdue for more than 30 days and/or are being contested in good faith, liens arising solely by operation of law or by order of a court or tribunal (or by an agreement of similar effect) and/or in the ordinary course of day to day business or operations;
 - (e) any Security Interest or Quasi-Security Interest arising out of title retention provisions in a supplier's standard conditions of supply of goods acquired in the ordinary course of business or operations;
 - (f) any Security Interest or Quasi-Security Interest created on any asset acquired after the date of this Agreement for the sole purpose of financing or re-financing that acquisition and securing a principal, capital or
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nominal amount not exceeding the cost of that acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;

- (g) any Security Interest or Quasi-Security Interest outstanding on or over any asset acquired after the date of this Agreement and in existence at the date of such acquisition, provided that the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of acquisition of such asset;
- (h) any Security Interest or Quasi-Security Interest created or outstanding on or over any asset of any company which becomes a Material Subsidiary of the Company after the date of this Agreement where such Security Interest or Quasi-Security Interest is created prior to the date on which such company becomes a Material Subsidiary of the Company and is not created or increased in contemplation of such company being acquired and/or becoming a Material Subsidiary of the Company and the Security Interest or Quasi-Security Interest is removed or discharged within 6 months of the date of such company becoming a Material Subsidiary of the Company;
- (i) any Quasi-Security Interest arising as a result of a disposal which is a disposal permitted under sub-clause 21.6.2;
- (j) any netting arrangements under any swap or other hedging transaction which is on standard market terms;
- (k) any Security Interest or Quasi-Security Interest over bank accounts of the Company in favour of the account holding bank with whom it maintains a banking relationship in the ordinary course of trade and granted as part of that bank's standard terms and conditions;
- (l) any Security Interest or Quasi-Security Interest created or outstanding with the prior approval of the Majority Lenders; and
- (m) any Security Interest or Quasi-Security Interest created or outstanding on or over assets of the Company or any of its Material Subsidiaries provided that the aggregate outstanding principal or nominal amount secured by all Security Interests and Quasi-Security Interest created or outstanding under this exception on or over such assets shall not at any time exceed £25,000,000 or its equivalent.

21.6 Disposals

- 21.6.1 Except as provided below, no member of the Group may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets (other than cash) where the higher of the market value and the net consideration receivable (when aggregated with the higher of the market value and the net consideration receivable from any previous disposal by

members of the Group) exceeds £5,000,000 (or its equivalent) in total during the term of this Agreement.

21.6.2 Sub-clause 21.6.1 does not apply to:

- (a) any disposal made in the ordinary course of day to day business or operations of the disposing entity (including, without limitation, disposals of subsidiaries or lines of business, provided that this shall not include a disposal of the core electricity distribution business);
 - (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant Person's business or operations;
 - (c) any realisation of investments acquired, purchased or made by the temporary application of funds not immediately required in the relevant Person's business or operations;
 - (d) the exchange of assets for other assets of a similar or superior nature and value, or the sale of assets on normal commercial terms for cash which is payable in full on the completion of the sale and is to be, and is, applied in or towards the purchase of similar assets within 12 months of that disposal (or, if contractually committed to be used within 12 months, are actually used within 18 months of that disposal);
 - (e) the disposal of assets by one wholly-owned Subsidiary of the Company to another or (if the consideration for the disposal does not exceed a normal commercial consideration) to the Company by one of its Subsidiaries;
 - (f) disposals in connection with sale-and-leaseback or sale and repurchase transactions or any other form of "off balance sheet" financing, provided that the aggregate book value (in the books of the disposing party) of all assets the subject of all such disposals made during the period commencing on the date of this Agreement and ending on the date when no amount remains to be lent or remains payable under this Agreement shall not exceed £50,000,000;
 - (g) any disposal which the Majority Lenders shall have agreed shall not be taken into account;
 - (h) arising as a result of any Security Interest or Quasi-Security Interest permitted under sub-clause 21.5.3 above;
 - (i) the application or disposal of cash not otherwise prohibited under the Finance Documents;
 - (j) any disposal by a member of Group compulsorily required by law or regulation having the force of law or any order of any government entity
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made thereunder and having the force of law provided that and to the extent permitted by such law or regulation:

- (i) such disposal is made for fair market value; and
- (ii) such disposal does not have a Material Adverse Effect.

21.7 Environmental matters

21.7.1 The Company will and will ensure that its Material Subsidiaries will comply with all applicable Environmental Law and other regulations, orders or other law applicable to the conduct of the business of the supply or distribution of electricity, in each case, where failure to do so would have a Material Adverse Effect.

21.7.2 The Company will, promptly upon becoming aware of the same, inform the Facility Agent in writing of:

- (a) any Environmental Claim against any member of the Group which is current, pending or threatened; and
- (b) any facts or circumstances which are reasonably likely to result in any Environmental Claim being commenced or threatened against any member of the Group,

where the claim, if determined against that member of the Group, would have a Material Adverse Effect.

21.8 Insurance

Each member of the Group must insure its business and assets with insurance companies to such an extent and against such risks as that member of the Group reasonably considers to be appropriate, having regard to the insurance arrangements of companies engaged in similar business.

1.9 Merger

The Company shall not enter into any amalgamation, demerger, merger or corporate reconstruction.

21.10 Change of business

The Company shall procure that no substantial change is made to the general nature of the business of the Company or the Group from that carried on at the date of this Agreement.

21.11 Acquisitions

21.11.1 Except as provided below, neither the Company nor any Material Subsidiary may acquire a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them).

21.11.2 Provided that no Event of Default is outstanding on the date of the acquisition or would occur as a result of the acquisition, sub-clause 21.11.1 does not apply to:

- (a) an acquisition by a member of the Group of an asset sold, leased, transferred or otherwise disposed of by another member of the Group as permitted under sub-clause 21.6.2 of Clause 21.6 (*Disposals*) above;
- (b) an acquisition where the consideration (including associated costs and expenses) for the acquisition (when aggregated with the consideration (including associated costs and expenses) for any other acquisition permitted under this paragraph) during the term of this Agreement does not exceed 2.5% of the sum of the issued share capital, share premium and consolidated reserves (including retained earnings) of the Company, as shown by its most recent audited consolidated financial statements; and
- (c) any acquisition which the Majority Lenders shall have consented to in writing.

21.12 Prohibition on the Debt Purchase Transactions of the Group

The Company shall not, and shall procure that each other member of the Group shall not, enter into any Debt Purchase Transaction or beneficially own all or any part of the share capital of a company that is a Lender or a party to a Debt Purchase Transaction of the type referred to in paragraphs (b) and (c) of the definition of Debt Purchase Transaction.

21.13 Prohibition on Subsidiary Financial Indebtedness

The Company shall procure that no member of the Group (other than the Company) will incur or allow to remain outstanding any Financial Indebtedness unless the relevant member of the Group is a special purpose vehicle incorporated solely for the purpose of incurring such Financial Indebtedness and which does not undertake any other activities.

21.14 Arm's length transactions

The Company shall not (and the Company shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value where to do so would be in contravention of the Licence, provided that if, at any time, the Licence is not in effect, the Company shall not (and shall ensure no member of the Group will) enter into any transaction with any person except on arm's length terms and for full market value.

21.15 Pensions

21.15.1 The Company shall ensure that no action or omission is taken by any member of the Group in relation to a pension scheme which has or is reasonably likely

to have a Material Adverse Effect (including, without limitation, the termination or commencement of winding-up proceedings of any such pension scheme).

- 21.15.2 Except for in respect of WPD South Wales Plc of the Western Power Utilities Pension Scheme and the Infracore 92 Scheme, the WPD Group of the Electricity Supply Pension Scheme (and in the case of merger, the CN Group of the ESPS) the Company shall ensure that no member of the Group is an employer (for the purposes of sections 38 to 51 of the Pensions Act 2004) of an occupational pension scheme which is not a money purchase scheme (both terms as defined in the Pension Schemes Act 1993) or "connected" with or an "associate" of (as those terms are used in sections 38 or 43 of the Pensions Act 2004) such an employer.
- 21.15.3 The Company shall promptly notify the Facility Agent of any material change in the rate of contributions payable to any of the pension schemes mentioned in sub-clause 21.15.2 above paid or required (by law or otherwise).
- 21.15.4 The Company shall immediately notify the Facility Agent of any investigation or proposed investigation by the Pensions Regulator which may lead to the issue of a Financial Support Direction or a Contribution Notice to any member of the Group.
- 21.15.5 The Company shall immediately notify the Facility Agent if it receives a Financial Support Direction or a Contribution Notice from the Pensions Regulator.

21.16 **Licence**

The Company will at all times:

- 21.16.1 comply with the terms of the Licence in all material respects;
- 21.16.2 without prejudice to the generality of sub-clause 21.16.1 above, comply with the ring fencing provisions of the Licence in all respects; and
- 21.16.3 not take any action or make any omission which is reasonably likely to result in the revocation or termination of the Licence.

21.17 **Investment Grade Rating**

The Company shall procure that the long-term, unsecured and non credit-enhanced debt obligations of the Company shall be rated Baa3/BBB-, or such higher rating as required by the Licence, or above, by at least one of Moody's and Standard and Poor's and shall not be rated below Baa3/BBB-, or such higher rating as required by the Licence, by either of Moody's or Standard and Poor's.

21.18 **Sanctions**

- 21.18.1 Neither the Company, nor any other member of the Group, shall be the subject of any sanctions administered or enforced by the U.S. Department of Treasury's Office of Foreign Assets Control (the "OFAC"), the United Nations Security Council (the "UNSC"), the European Union, Her Majesty's Treasury (the

"HMT"), or other relevant sanctions authority (collectively, "Sanctions"), and no member of the Group shall be located, organized or resident in a country or territory that is the subject of country-wide or territory-wide Sanctions.

21.18.2 The Company undertakes that no member of the Group will, directly or indirectly, use the proceeds of the transaction, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity (the "Person"), to fund any activities of or business with any Person, or in Syria, Cuba, Iran, North Korea, Sudan or in any other country or territory, that, at the time of such funding, is the subject of country-wide or territory-wide Sanctions, or in any other manner that will result in a violation by any Person (including any Person participating in the transaction, whether as underwriter, advisor, investor or otherwise) of Sanctions.

21.18.3 The Company shall ensure that the source of any funds for discharging its obligations under this Agreement is not obtained from any designated target of any Sanctions or any of Syria, Cuba, Iran, North Korea, Sudan or any other country or territory, that, at the time of such payment, is the subject of country-wide or territory-wide Sanctions.

21.19 Anti-Corruption

21.19.1 The Company shall not (and shall ensure that no other member of the Group will) use the proceeds, or cause or permit the proceeds of any Loan to be used, directly or indirectly, in any way that would be in breach of applicable anti-corruption laws.

21.19.2 The Company shall (and shall ensure that each other member of the Group will):

- (a) conduct its businesses in compliance with applicable anti-corruption laws; and
- (b) maintain policies and procedures designed to promote and achieve compliance with such laws.

22. DEFAULT

22.1 Events of Default

Each of the events set out in this Clause is an Event of Default.

22.2 Non-payment

The Company fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- (a) administrative or technical error; or
- (b) a Disruption Event,

and payment is made within 5 Business Days of its due date.

22.3 Breach of other obligations

- 22.3.1 The Company does not perform or comply with its obligations under Clause 20 (*Financial Covenants*), Clause 21.5 (*Negative pledge*), Clause 21.6 (*Disposals*) or Clause 21.11 (*Acquisitions*).
- 22.3.2 The Company does not perform or comply with any of its other obligations under any Finance Document in any material respect or any representation or warranty by the Company in this Agreement or in any document delivered under it is or proves to have been incorrect when made or deemed repeated, unless the non-compliance or circumstances giving rise to the misrepresentation, as the case may be, is capable of remedy and is not remedied within 20 Business Days of the earlier of the Facility Agent giving notice requiring the same to be remedied and the Company becoming aware of such non-compliance or misrepresentation, as the case may be.

22.4 Cross-default

- 22.4.1 Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.
- 22.4.2 Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.3 Any commitment for any Financial Indebtedness of any member of the Group is cancelled or suspended by a creditor of that member of the Group as a result of an event of default (however described).
- 22.4.4 Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).
- 22.4.5 No Event of Default will occur under this Clause 22.4 unless and until the aggregate amount of such Financial Indebtedness falling within sub-clauses 22.4.1 to 22.4.4 above is more than £20,000,000 or its equivalent in any other currency or currencies.

22.5 Insolvency

- 22.5.1 Any of the following occurs in respect of the Company:
- (a) it is unable to pay its debts generally as they fall due or it is deemed by a court of competent jurisdiction to be insolvent;
 - (b) it suspends making payments on all or any class of its debts or publicly announces an intention to do so;
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- (c) by reason of actual or anticipated financial difficulties, it begins negotiations with all or any class of its creditors for the general rescheduling of its indebtedness; or
- (d) a moratorium is declared in respect of any of its indebtedness.

22.5.2 If a moratorium occurs in respect of the Company, the ending of the moratorium will not remedy any Event of Default caused by the moratorium.

22.6 Insolvency proceedings

22.6.1 Except as provided below, any of the following occurs in respect of the Company:

- (a) a suspension of payments, a moratorium of any indebtedness or a reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
- (b) any person presents a petition for its winding-up, administration or dissolution;
- (c) an order for its winding-up, administration or dissolution is made;
- (d) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets;
- (e) its directors or other officers request the appointment of a liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer;
- (f) enforcement of any Security over any of its assets; or
- (g) any other analogous step or procedure is taken in any jurisdiction.

22.6.2 Sub-clause 22.6.1 does not apply to:

- (a) a petition for winding-up presented by a creditor which is being actively contested in good faith and with due diligence and with a reasonable prospect of success; or
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement, in each case which is on terms approved by the Majority Lenders.

22.7 Creditors' process

A distress, attachment, execution or other legal process material in relation to the Company's ability to perform its payment obligations under this Agreement is levied, enforced or sued out on or against the assets of the Company and is not discharged or stayed within 30 days.

22.8 Licence

Either:

22.8.1 notice is given to revoke or terminate the Licence unless such termination is being contested in good faith and such notice is revoked or cancelled within 14 days of notice being given; or

22.8.2 the Licence is revoked,

in either case, other than in circumstances which permit the Company or its Subsidiaries to carry on the distribution business of the Company either without a licence as a result of any change in the Act or regulatory regime or with a new licence, permitting the distribution of electricity in the authorised areas covered by the Licence, issued under the Act or pursuant to the Utilities Act, 2000.

22.9 Balancing and Settlement Code

22.9.1 The Company ceases to be a party to the Balancing and Settlement Code Framework Agreement other than in circumstances where the Company is able to carry on its distribution business; or

22.9.2 the Company breaches the Balancing and Settlement Code and such breach has or is reasonably likely to have a Material Adverse Effect.

22.10 Unlawfulness and invalidity

22.10.1 It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents in any material respect.

22.10.2 Any obligation or obligations of the Company under any Finance Documents are not (subject to the Legal Reservations) or cease to be legal, valid, binding or enforceable and the cessation individually or cumulatively materially and adversely affects the interests of the Lenders under the Finance Documents.

22.11 Cessation of business

The Company suspends or ceases to carry on (or threatens to suspend or cease to carry on) all or a material part of its business except as a result of a disposal permitted by Clause 21.6 (*Disposals*).

22.12 Repudiation and rescission of agreements

The Company (or any other relevant party other than a Finance Party) rescinds or purports to rescind or repudiates or purports to repudiate a Finance Document or evidences an intention to rescind or repudiate a Finance Document.

22.13 Ownership of other Group companies

The Company ceases to own (directly or indirectly) 100% of the shares in any of its Subsidiaries:

- (a) which is engaged in the core electricity distribution business; or
- (b) in respect of which it has any actual or contingent financial obligations other than as a result of a solvent liquidation or reorganisation so long as any payments or assets distributed as a result of such solvent liquidation or reorganisation are distributed to other members of the Group.

22.14 **Material Adverse Effect**

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

22.15 **Acceleration**

If an Event of Default is outstanding, the Facility Agent may, and must if so instructed by the Majority Lenders, by notice to the Company:

22.15.1 cancel the Total Commitments and/or Ancillary Commitments; and/or

22.15.2 declare that all or part of any amounts outstanding under the Finance Documents are:

- (a) immediately due and payable; and/or
- (b) payable on demand by the Facility Agent acting on the instructions of the Majority Lenders; and/or

22.15.3 declare that full cash cover in respect of all or part of the amounts outstanding under the Ancillary Facilities is immediately due and payable whereupon it shall become immediately due and payable or payable on demand at which time it shall become payable on demand by the Facility Agent on the instructions of the Majority Lenders.

Any notice given under this sub-clause will take effect in accordance with its terms.

23. **THE ADMINISTRATIVE PARTIES**

23.1 **Appointment and duties of the Facility Agent**

23.1.1 Each Finance Party (other than the Facility Agent) irrevocably appoints the Facility Agent to act as its agent under the Finance Documents.

23.1.2 Each Finance Party irrevocably authorises the Facility Agent to:

- (a) perform the duties and to exercise the rights, powers and discretions that are specifically given to it under the Finance Documents, together with any other incidental rights, powers and discretions; and
- (b) execute each Finance Document expressed to be executed by the Facility Agent.

23.1.3 The Facility Agent has only those duties which are expressly specified in the Finance Documents. Those duties are solely of a mechanical and administrative nature.

23.1.4 The Facility Agent shall provide to the Company within three Business Days of a request by the Company (but no more frequently than once per calendar month), a list (which may be in electronic form) setting out the names of the Lenders as at the date of that request, their respective Commitments, the address and fax number (and the department or officer, if any, for whose attention any communication is to be made) of each Lender for any communication to be made or document to be delivered under or in connection with the Finance Documents, the electronic mail address and/or any other information required to enable the sending and receipt of information by electronic mail or other electronic means to and by each Lender to whom any communication under or in connection with the Finance Documents may be made by that means and the account details of each Lender for any payment to be distributed by the Facility Agent to that Lender under the Finance Documents.

23.2 Role of the Arrangers

Except as specifically provided in the Finance Documents, the Arranger does not have any obligations of any kind to any other Party in connection with any Finance Document.

23.3 No fiduciary duties

Except as specifically provided in a Finance Document, nothing in the Finance Documents makes an Administrative Party a trustee or fiduciary for any other Party or any other person. No Administrative Party need hold in trust any moneys paid to it for a Party or be liable to account for interest on those moneys.

23.4 Individual position of an Administrative Party

23.4.1 If it is also a Lender, each Administrative Party has the same rights and powers under the Finance Documents as any other Lender and may exercise those rights and powers as though it were not an Administrative Party.

23.4.2 Each Administrative Party and each Ancillary Lender may:

- (a) carry on any business with the Company or its related entities (including acting as an agent or a trustee for any other financing); and
- (b) retain any profits or remuneration it receives under the Finance Documents or in relation to any other business it carries on with the Company or its related entities.

23.5 Reliance

The Facility Agent may:

- 23.5.1 rely on any notice or document believed by it to be genuine and correct and to have been signed by, or with the authority of, the proper person;
- 23.5.2 rely on any statement made by any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify;
- 23.5.3 engage, pay for and rely on professional advisers selected by it (including those representing a Party other than the Facility Agent); and
- 23.5.4 act under the Finance Documents through its personnel and agents.

23.6 Majority Lenders' instructions

- 23.6.1 The Facility Agent is fully protected if it acts on the instructions of the Majority Lenders in the exercise of any right, power or discretion or any matter not expressly provided for in the Finance Documents. Any such instructions given by the Majority Lenders will be binding on all the Lenders. In the absence of instructions, the Facility Agent may act as it considers to be in the best interests of all the Lenders.
- 23.6.2 The Facility Agent is not authorised to act on behalf of a Lender (without first obtaining that Lender's consent) in any legal or arbitration proceedings in connection with any Finance Document.
- 23.6.3 The Facility Agent may require the receipt of security satisfactory to it, whether by way of payment in advance or otherwise, against any liability or loss which it may incur in complying with the instructions of the Majority Lenders.

23.7 Responsibility

- 23.7.1 No Administrative Party and no Ancillary Lender is responsible to any other Finance Party for the adequacy, accuracy or completeness of:
 - (a) any Finance Document or any other document; or
 - (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document.
- 23.7.2 Without affecting the responsibility of the Company for information supplied by it or on its behalf in connection with any Finance Document, each Lender and each Ancillary Lender confirms that it:
 - (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets); and
 - (b) has not relied exclusively on any information provided to it by any Administrative Party in connection with any Finance Document.

23.7.3

- (a) Nothing in this Agreement will oblige the Facility Agent to satisfy any know your customer requirement in relation to the identity of any person on behalf of any Finance Party.
- (b) Each Finance Party confirms to the Facility Agent that it is solely responsible for any know your customer requirements it is required to carry out and that it may not rely on any statement in relation to those requirements made by any other person.

23.8 Exclusion of liability

- 23.8.1 Neither the Facility Agent nor any Ancillary Lender is liable or responsible to any other Finance Party for any action taken or not taken by it in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct.
- 23.8.2 The Facility Agent will not be liable for any delay (or any related consequences) in crediting an account with an amount required under the Finance Documents to be paid by the Facility Agent, if the Facility Agent has taken all necessary steps as soon as reasonably practicable to comply with the regulations or operating procedures of any recognised clearing or settlement system used by the Facility Agent for that purpose.
- 23.8.3 No Party (other than the Facility Agent or the Ancillary Lender) may take any proceedings against any officer, employee or agent of the Facility Agent or any Ancillary Lender in respect of any claim it might have against the Facility Agent or any Ancillary Lender or in respect of any act or omission of any kind by that officer, employee or agent in connection with any Finance Document. Any officer, employee or agent of the Facility Agent or any Ancillary Lender may rely on this sub-clause and enforce its terms under the Contracts (Rights of Third Parties) Act 1999.

23.9 Default

- 23.9.1 The Facility Agent is not obliged to monitor or enquire whether a Default has occurred. The Facility Agent is not deemed to have knowledge of the occurrence of a Default.
- 23.9.2 If the Facility Agent:
 - (a) receives notice from a Party referring to this Agreement, describing a Default and stating that the event is a Default; or
 - (b) is aware of the non-payment of any principal or interest or any fee payable to a Lender under this Agreement,it must promptly notify the Lenders.

23.10 Information

- 23.10.1 The Facility Agent must promptly forward to the person concerned the original or a copy of any document which is delivered to the Facility Agent by a Party for that person.
- 23.10.2 Except where a Finance Document specifically provides otherwise, the Facility Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 23.10.3 Except as provided above, the Facility Agent has no duty:
- (a) either initially or on a continuing basis to provide any Lender with any credit or other information concerning the risks arising under or in connection with the Finance Documents (including any information relating to the financial condition or affairs of the Company or its related entities or the nature or extent of recourse against any Party or its assets) whether coming into its possession before, on or after the date of this Agreement; or
 - (b) unless specifically requested to do so by a Lender in accordance with a Finance Document, to request any certificate or other document from the Company.
- 23.10.4 In acting as the Facility Agent, the agency division of the Facility Agent is treated as a separate entity from its other divisions and departments. Any information acquired by the Facility Agent which, in its opinion, is acquired by it otherwise than in its capacity as the Facility Agent may be treated as confidential by the Facility Agent and will not be treated as information possessed by the Facility Agent in its capacity as such.
- 23.10.5 The Facility Agent is not obliged to disclose to any person any confidential information supplied to it by a member of the Group solely for the purpose of evaluating whether any waiver or amendment is required to any term of the Finance Documents.
- 23.10.6 The Company irrevocably authorises the Facility Agent to disclose to the other Finance Parties any information which, in its opinion, is received by it in its capacity as the Facility Agent.
- 23.10.7 Without prejudice to the generality of the foregoing, the Facility Agent may disclose the identity of a Defaulting Lender to the other Finance Parties and the Company and shall disclose the same upon the written request of the Company or the Majority Lenders.

23.11 Indemnities

- 23.11.1 Without limiting the liability of the Company under the Finance Documents, each Lender must indemnify the Facility Agent for that Lender's Pro Rata Share of any loss or liability incurred by the Facility Agent in acting as the Facility Agent, except to the extent that the loss or liability is caused by the Facility
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Agent's gross negligence or wilful misconduct or to the extent that the Facility Agent has been reimbursed in full by the Company for such loss or liability.

23.11.2 The Facility Agent may deduct from any amount received by it for a Lender any amount due to the Facility Agent from that Lender under a Finance Document but unpaid.

23.11.3 The Company must indemnify the Facility Agent against any loss or liability properly incurred by the Facility Agent as a result of:

- (a) investigating any event which the Facility Agent reasonably believes to be a Default; or
- (b) acting or relying on any notice which the Facility Agent reasonably believes to be genuine, correct and appropriately authorised.

23.12 Compliance

The Facility Agent may refrain from doing anything (including disclosing any information) which might, in its opinion, constitute a breach of any law or regulation or be otherwise actionable at the suit of any person, and may do anything which, in its opinion, is necessary or desirable to comply with any law or regulation.

23.13 Resignation of the Facility Agent

23.13.1 The Facility Agent may resign and appoint any of its Affiliates as successor Facility Agent by giving notice to the Lenders and the Company.

23.13.2 Alternatively, the Facility Agent may resign by giving notice to the Lenders and the Company, in which case the Majority Lenders may appoint a successor Facility Agent.

23.13.3 If no successor Facility Agent has been appointed under sub-clause 23.13.2 above within 30 days after notice of resignation was given, the Facility Agent may appoint a successor Facility Agent.

23.13.4 The person(s) appointing a successor Facility Agent must, if practicable, consult with the Company prior to the appointment. Any successor Facility Agent must have an office in the U.K.

23.13.5 The resignation of the Facility Agent and the appointment of any successor Facility Agent will both become effective only when the successor Facility Agent notifies all the Parties that it accepts its appointment. On giving the notification, the successor Facility Agent will succeed to the position of the Facility Agent and the term "**Facility Agent**" will mean the successor Facility Agent.

23.13.6 The retiring Facility Agent must, at its own cost, make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as the Facility Agent under the Finance Documents.

23.13.7 Upon its resignation becoming effective, this Clause will continue to benefit the retiring Facility Agent in respect of any action taken or not taken by it in connection with the Finance Documents while it was the Facility Agent, and, subject to sub-clause 23.13.6 above, it will have no further obligations under any Finance Document.

23.14 Replacement of the Facility Agent

23.14.1 After consultation with the Company, the Majority Lenders may, by giving 30 days' notice to the Facility Agent (or, at any time the Facility Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Facility Agent by appointing a successor Facility Agent (acting through an office in the United Kingdom).

23.14.2 The retiring Facility Agent shall (at its own cost if it is an Impaired Agent and otherwise at the expense of the Lenders) make available to the successor Facility Agent such documents and records and provide such assistance as the successor Facility Agent may reasonably request for the purposes of performing its functions as Facility Agent under the Finance Documents.

23.14.3 The replacement of the Facility Agent and the appointment of the successor Facility Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Facility Agent. As from this date, the retiring Facility Agent shall be discharged from any further obligation in respect of the Finance Documents but shall remain entitled to the benefit of this Clause 23 (and any agency fees for the account of the retiring Facility Agent shall cease to accrue from (and shall be payable on) that date).

23.14.4 Any successor Facility Agent and each of the other Parties shall have the same rights and obligations amongst themselves as they would have had if such successor had been an original Party.

23.15 Relationship with Lenders

23.15.1 Subject to Clause 29.9 (*Pro rata interest settlement*), the Facility Agent may treat each Lender as a Lender, entitled to payments under this Agreement and as acting through its Facility Office(s) until it has received not less than five Business Days' prior notice from that Lender to the contrary.

23.15.2 The Facility Agent may at any time, and must if requested to do so by the Majority Lenders, convene a meeting of the Lenders.

23.15.3 The Facility Agent must keep a register of all the Parties and supply any other Party with a copy of the register on request. The register will include each Lender's Facility Office(s) and contact details for the purposes of this Agreement.

23.16 Facility Agent's management time

If the Facility Agent requires, any amount payable to the Facility Agent by any Party under any indemnity or in respect of any costs or expenses incurred by the Facility Agent

under the Finance Documents after the date of this Agreement may include the cost of using its management time or other resources and will be calculated on the basis of such reasonable daily or hourly rates as the Facility Agent may notify to the relevant Party. This is in addition to any amount in respect of fees or expenses paid or payable to the Facility Agent under any other term of the Finance Documents.

23.17 Notice period

Where this Agreement specifies a minimum period of notice to be given to the Facility Agent, the Facility Agent may, at its discretion, accept a shorter notice period.

23.18 Subordination Deed

The Facility Agent will execute any Subordination Deed within two Business Days of receipt of a request (which shall include an execution version of such Subordination Deed) from the Company.

24. EVIDENCE AND CALCULATIONS

24.1 Accounts

Accounts maintained by a Finance Party in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

24.2 Certificates and determinations

Any certification or determination by a Finance Party of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

24.3 Calculations

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 or 365 days or otherwise, depending on what the Facility Agent determines is market practice.

25. FEES

25.1 Agency fee

The Company must pay to the Facility Agent for its own account an annual agency fee in the manner agreed between the Facility Agent and the Company.

25.2 Arrangement and participation fees

The Company must pay the upfront fees in the manner agreed between the Arrangers and the Company.

25.3 Co-ordination fee

The Company must pay a co-ordination fee in the manner agreed between the Joint Coordinators and the Company.

25.4 **Commitment fee**

- 25.4.1 The Company must pay a commitment fee computed at the rate of 35 per cent. of the applicable Margin on the undrawn, uncanceled amount of each Lender's Commitment for the Availability Period calculated from the date of this Agreement.
- 25.4.2 The commitment fee is payable quarterly in arrears during the Availability Period and on the last day of the Availability Period. Accrued commitment fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.
- 25.4.3 No commitment fee is payable to the Facility Agent (for the account of a Lender) on any Available Commitment of that Lender for any day on which that Lender is a Defaulting Lender.

25.5 **Utilisation fee**

- 25.5.1 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.20 per cent. per annum on the aggregate principal amount of the Loans for each day on which the aggregate Base Currency Amount of all Loans exceeds 33.3 per cent. of the Total Commitments.
- 25.5.2 The Company must pay to the Facility Agent for each Lender a utilisation fee computed at the rate of 0.40 per cent. per annum on the aggregate principal amount of the Loans for each day on which the Base Currency Amount of all Loans exceeds 66.6 per cent. of the Total Commitments. For the avoidance of doubt, the fee described in sub-clause 25.5.1 above is not payable in respect of any day for which the fee described in this sub-clause 25.5.2 is payable.
- 25.5.3 Utilisation fee is payable on the amount of each Lender's share in the Loans.
- 25.5.4 Accrued utilisation fee is payable quarterly in arrears. Accrued utilisation fee is also payable to the Facility Agent for a Lender on the date its Commitment is cancelled in full.

25.6 **Interest, commission and fees on Ancillary Facilities**

The rate and time of payment of interest, commission, fees and any other remuneration in respect of each Ancillary Facility shall be determined by agreement between the relevant Ancillary Lender and the Company based upon normal market rates and terms.

26. **INDEMNITIES AND BREAK COSTS**

26.1 Currency indemnity

26.1.1 The Company must, as an independent obligation, indemnify each Finance Party against any loss or liability which that Finance Party incurs as a consequence of:

- (a) that Finance Party receiving an amount in respect of the Company's liability under the Finance Documents; or
- (b) that liability being converted into a claim, proof, judgment or order,

in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.

26.1.2 Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

26.2 Other indemnities

The Company shall within 15 days of demand indemnify the Facility Agent and each Lender against any funding or other cost, loss, expense or liability in an amount certified by it in reasonable detail (together with documentation in support) sustained or incurred by it as a direct result of:

26.2.1 the occurrence of any Event of Default;

26.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered for that Loan; or

26.2.3 the receipt or recovery by any party (or the Facility Agent on its behalf) of all or any part of a Loan or overdue sum due from the Company otherwise than on the Final Maturity Date or Maturity Date of that Loan or, in the case of an overdue sum, the last day of an interest period relating to that overdue sum, as the case may be or a Loan or any part thereof not being prepaid in accordance with a notice of prepayment.

26.3 Break Costs

26.3.1 The Company must pay to each Lender its Break Costs within three Business Days of demand.

26.3.2 Break Costs are the amount (if any) determined by the relevant Lender by which:

- (a) the interest (excluding Margin) which that Lender would have received for the period from the date of receipt of any part of its share in a Loan or overdue amount to the last day of the applicable Term for that Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;

exceeds

- (b) the amount which that Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.

26.3.3 Each Lender must supply to the Facility Agent for the Company details of the amount of any Break Costs claimed by it under this Clause.

27. EXPENSES

27.1 Initial costs

The Company must pay to each Administrative Party promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing, execution and syndication of the Finance Documents.

27.2 Subsequent costs

The Company must pay to the Facility Agent promptly on demand the amount of all costs and expenses (including legal fees) reasonably incurred by it in connection with:

- 27.2.1 the negotiation, preparation, printing and execution of any Finance Document (other than a Transfer Certificate or Increase Confirmation) executed after the date of this Agreement; and
- 27.2.2 any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by this Agreement.

27.3 Enforcement costs

The Company must pay to each Finance Party the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

28. AMENDMENTS AND WAIVERS

28.1 Procedure

- 28.1.1 Except as provided in this Clause 28, any term of the Finance Documents (other than the Fee Letters) may be amended or waived with the agreement of the Company and the Majority Lenders. The Facility Agent may effect, on behalf of any Finance Party, an amendment or waiver allowed under this Clause.
- 28.1.2 The Facility Agent must promptly notify the other Parties of any amendment or waiver effected by it under sub-clause 28.1.1 above. Any such amendment or waiver is binding on all the Parties.

28.2 Exceptions

- 28.2.1 An amendment or waiver which relates to:
-

- (a) the definition of Majority Lenders in Clause 1.1 (*Definitions*);
- (b) Clause 2.3 (*Nature of a Finance Party's rights and obligations*);
- (c) an extension of the date of payment of any amount to a Lender under the Finance Documents;
- (d) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fee or other amount payable to a Lender under the Finance Documents;
- (e) an increase in, or an extension of, a Commitment or the Total Commitments;
- (f) a term of a Finance Document which expressly requires the consent of each Lender;
- (g) the right of a Lender to assign or transfer its rights or obligations under the Finance Documents;
- (h) Clause 10.1 (*Mandatory prepayment – illegality*) or Clause 10.2 (*Mandatory prepayment – change of control*);
or
- (i) this Clause,

may only be made with the consent of all the Lenders.

28.2.2 An amendment or waiver which relates to the rights or obligations of an Administrative Party or an Ancillary Lender may only be made with the consent of that Administrative Party or Ancillary Lender.

28.3 Disenfranchisement of Defaulting Lenders

28.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining the Majority Lenders or whether any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments has been obtained to approve any request for a consent, waiver, amendment or other vote under the Finance Documents, that Defaulting Lender's Commitments will be reduced by the amount of its Available Commitments.

28.3.2 For the purposes of this Clause 28.3, the Facility Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Facility Agent that it has become a Defaulting Lender;
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraphs (a), (b) or (c) of the definition of "Defaulting Lender" has occurred where, in the case of the events or circumstances referred to in paragraph (a), none of the exceptions to that paragraph apply,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Facility Agent) or the Facility Agent is otherwise aware that the Lender has ceased to be a Defaulting Lender.

28.4 Replacement of a Defaulting Lender

28.4.1 The Company may, at any time a Lender has become and continues to be a Defaulting Lender, by giving 10 Business Days' prior written notice to the Facility Agent and such Lender:

- (a) replace such Lender by requiring such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of its rights and obligations under this Agreement; or
- (b) require such Lender to (and to the extent permitted by law such Lender shall) transfer pursuant to Clause 29 (*Changes to the Parties*) all (and not part only) of the undrawn Commitment of the Lender.

to a Lender or other bank, financial institution, trust, fund or other entity (a "**Replacement Lender**") selected by the Company, and which is acceptable to the Facility Agent (acting reasonably) (unless the Facility Agent is an Impaired Agent), which confirms its willingness to assume and does assume all the obligations or all the relevant obligations of the transferring Lender (including the assumption of the transferring Lender's participations or unfunded participations (as the case may be) on the same basis as the transferring Lender) for a purchase price in cash payable at the time of transfer equal to the outstanding principal amount of such Lender's participation in the outstanding Loans and all accrued interest (to the extent that the Facility Agent has not given a notification under Clause 29.9 (*Pro rata interest settlement*)), Break Costs and other amounts payable in relation thereto under the Finance Documents.

28.4.2 Any transfer of rights and obligations of a Defaulting Lender pursuant to this Clause shall be subject to the following conditions:

- (a) the Company shall have no right to replace the Facility Agent;
- (b) neither the Facility Agent nor the Defaulting Lender shall have any obligation to the Company to find a Replacement Lender;
- (c) the transfer must take place no later than 14 days after the notice referred to in sub-clause 28.4.1 above;
- (d) in no event shall the Defaulting Lender be required to pay or surrender to the Replacement Lender any of the fees received by the Defaulting Lender pursuant to the Finance Documents; and
- (e) the Defaulting Lender shall only be obliged to transfer its rights and obligations pursuant to sub-clause 28.4.1 above once it is satisfied that it has complied with all necessary "know your customer" or other similar

checks under all applicable laws and regulations in relation to the transfer to the Replacement Lender.

28.5 Excluded Commitments

If a Lender does not accept or reject a request for an amendment, waiver or consent within 15 Business Days of receipt of such request (or such longer period as the Company and the Facility Agent may agree), or abstains from accepting or rejecting a request for an amendment, waiver or consent, its Commitments shall not be included for the purpose of calculating the Total Commitments or participations under the Facility when ascertaining whether any relevant percentage (including, for the avoidance of doubt, unanimity) of Total Commitments and/or participations has been obtained to approve that request.

28.6 Change of currency

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Facility Agent (acting reasonably and after consultation with the Company) determines is necessary to reflect the change.

28.7 Waivers and remedies cumulative

The rights of each Finance Party under the Finance Documents:

28.7.1 may be exercised as often as necessary;

28.7.2 are cumulative and not exclusive of its rights under the general law; and

28.7.3 may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

29. CHANGES TO THE PARTIES

29.1 Assignments and transfers by the Company

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of all the Lenders.

29.2 Assignments and transfers by Lenders

29.2.1 A Lender (the **Existing Lender**) may, subject to the following provisions of this Clause 29, at any time assign or transfer (including by way of novation) any of its rights and obligations under this Agreement to any bank, financial institution or trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the **New Lender**).

- 29.2.2 Unless the Company and the Facility Agent otherwise agree, an assignment or transfer of part of a Commitment or rights and obligations under this Agreement by the Existing Lender must be in a minimum amount of £5,000,000.
- 29.2.3 An Existing Lender must consult with the Company for no more than five Business Days before it may make an assignment or transfer unless the New Lender is another Lender or an Affiliate of a Lender or an Event of Default has occurred and is outstanding.
- 29.2.4 The Facility Agent is not obliged to accept an assignment or execute a Transfer Certificate until it has completed all know your customer requirements to its satisfaction. The Facility Agent must promptly notify the Existing Lender and the New Lender if there are any such requirements.
- 29.2.5 An assignment of rights or a transfer of rights and obligations will be effective only if either:
- (a) the obligations are novated in accordance with the following provisions of this Clause 29; or
 - (b) the New Lender confirms to the Facility Agent and the Company in form and substance satisfactory to the Facility Agent that it is bound by the terms of this Agreement as a Lender. On the assignment or transfer becoming effective in this manner the Existing Lender will be released from its rights and obligations under this Agreement to the extent that they are assigned or transferred to the New Lender.
- 29.2.6 Unless the Facility Agent otherwise agrees, the New Lender must pay to the Facility Agent for its own account, on or before the date any assignment or transfer occurs, a fee of £1,750.
- 29.2.7 Any reference in this Agreement to a Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

29.3 Procedure for transfer by way of novations

- 29.3.1 In this Clause:

Transfer Date means, for a Transfer Certificate, the later of:

- (a) the proposed Transfer Date specified in that Transfer Certificate; and
- (b) the date on which the Facility Agent executes that Transfer Certificate.

- 29.3.2 A novation is effected if:

- (a) the Existing Lender and the New Lender deliver to the Facility Agent a duly completed Transfer Certificate; and
- (b) the Facility Agent executes it.

Subject to sub-clause 29.2.4 of Clause 29.2 (*Assignments and transfers by Lenders*), the Facility Agent must execute as soon as reasonably practicable a Transfer Certificate delivered to it and which appears on its face to be in order.

29.3.3 Each Party (other than the Existing Lender and the New Lender) irrevocably authorises the Facility Agent to execute any duly completed Transfer Certificate on its behalf.

29.3.4 29.3.4 Subject to Clause 29.9 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender; and
- (b) the Existing Lender will be released from those obligations and cease to have those rights.

29.4 **Limitation of responsibility of Existing Lender**

29.4.1 Unless expressly agreed to the contrary, an Existing Lender is not responsible to a New Lender for the legality, validity, adequacy, accuracy, completeness or performance of:

- (a) any Finance Document or any other document; or
- (b) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document,

and any representations or warranties implied by law are excluded.

29.4.2 Each New Lender confirms to the Existing Lender and the other Finance Parties that it:

- (a) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement; and
- (b) has not relied exclusively on any information supplied to it by the Existing Lender in connection with any Finance Document.

29.4.3 Nothing in any Finance Document requires an Existing Lender to:

- (a) accept a re-transfer or re-assignment from a New Lender of any of the rights and obligations assigned or transferred under this Clause; or
- (b) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.

29.5 Costs resulting from change of Lender or Facility Office

If:

- 29.5.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and
- 29.5.2 as a result of circumstances existing at the date the assignment, transfer or change occurs, the Company would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 14 (*Tax gross-up and indemnities*) or Clause 15 (*Increased costs*),

then the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred. This Clause 29.5 shall not apply in relation to Clause 14 (*Tax gross-up and indemnities*), to a Treaty Lender that has included an indication to the effect that it wishes the HMRC DT Treaty Passport scheme to apply to this Agreement in accordance with sub-clause 14.6.1 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*) if the Company making the payment has not complied with its obligations under sub-clause 14.1.2 of Clause 14.6 (*HMRC DT Treaty Passport scheme confirmation*).

29.6 Changes to the Reference Banks

- 29.6.1 If a Reference Bank (or, if a Reference Bank is not a Lender, the Lender of which it is an Affiliate) ceases to be a Lender, the Facility Agent must (in consultation with the Company) appoint another Lender or an Affiliate of a Lender to replace that Reference Bank.
- 29.6.2 If a Reference Bank ceases to have a London office or novates or assigns all its rights and obligations under this Agreement or if any Commitments of any Reference Bank are cancelled or if Loans it has advanced are prepaid it shall be replaced as a Reference Bank by such other Lender or an Affiliate of a Lender with an office in London as the Facility Agent (after consultation with the Company) shall designate by notice to the Company and the Lenders.

29.7 Copy of Transfer Certificate or Increase Confirmation to Company

The Facility Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Increase Confirmation, send to the Company a copy of that Transfer Certificate or Increase Confirmation.

29.8 Security over Lenders' rights

In addition to the other rights provided to Lenders under this Clause 29, each Lender may without consulting with or obtaining consent from the Company, at any time charge, assign or otherwise create security in or over (whether by way of collateral or otherwise)

all or any of its rights under any Finance Document to secure obligations of that Lender including, without limitation:

- (a) any charge, assignment or other security to secure obligations to a federal reserve or central bank; and
- (b) in the case of any Lender which is a fund, any charge, assignment or other security granted to any holders (or trustee or representatives of holders) of obligations owed, or securities issued, by that Lender as security for those obligations or securities,

except that no such charge, assignment or Security shall:

- (i) release a Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or other security for the Lender as a party to any of the Finance Documents; or
- (ii) require any payments to be made by the Company or grant to any person any more extensive rights than those required to be made or granted to the relevant Lender under the Finance Documents.

29.9 Pro rata interest settlement

If the Facility Agent has notified the Lenders that it is able to distribute interest payments on a "*pro rata basis*" to Existing Lenders and New Lenders then (in respect of any transfer pursuant to Clause 29.3 (*Procedure for transfer by way of novations*)) the Transfer Date of which, in each case, is after the date of such notification and is not on the last day of a Term):

- 29.9.1 any interest or fees in respect of the relevant participation which are expressed to accrue by reference to the lapse of time shall continue to accrue in favour of the Existing Lender up to but excluding the Transfer Date ("**Accrued Amounts**") and shall become due and payable to the Existing Lender (without further interest accruing on them) on the last day of the current Term (or, if the Term is longer than six months, on the next of the dates which falls at six monthly intervals after the first day of that Term); and
- 29.9.2 the rights assigned or transferred by the Existing Lender will not include the right to the Accrued Amounts, so that, for the avoidance of doubt:
 - (i) when the Accrued Amounts become payable, those Accrued Amounts will be payable for the account of the Existing Lender; and
 - (ii) the amount payable to the New Lender on that date will be the amount which would, but for the application of this Clause 29.9, have been payable to it on that date, but after deduction of the Accrued Amounts.

In this Clause 29.9, references to "Term" shall be construed to include a reference to any other period for accrual of fees.

30. CONFIDENTIALITY AND DISCLOSURE OF INFORMATION

30.1 Confidential Information

Each Finance Party agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 30.2 (*Disclosure of Confidential Information*) and Clause 30.3 (*Disclosure to numbering service providers*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

30.2 Disclosure of Confidential Information

Any Finance Party may disclose:

30.2.1 to any of its Affiliates and Related Funds and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as that Finance Party shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this sub-clause 30.2.1 is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;

30.2.2 to any person:

- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents or which succeeds (or which may potentially succeed) it as Facility Agent and, in each case, to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (b) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or the Company and to any of that person's Affiliates, Related Funds, Representatives and professional advisers;
- (c) appointed by any Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
- (d) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in sub-clause 30.2.2 (a) or (b) above;
- (e) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;

- (f) to whom or for whose benefit that Finance Party charges, assigns or otherwise creates security (or may do so) pursuant to Clause 29.8 (*Security over Lenders' rights*) ;
- (g) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (h) who is a Party; or
- (i) with the consent of the Company;

in each case, such Confidential Information as that Finance Party shall consider appropriate if:

- (i) in relation to sub-clause 30.2.2 (a), (b) and (c) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
 - (ii) in relation to sub-clause 30.2.2 (d) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information;
 - (iii) in relation to sub-clause 30.2.2 (e), (f) and (g) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of that Finance Party, it is not practicable so to do in the circumstances;
- 30.2.3 to any person appointed by that Finance Party or by a person to whom sub-clause 30.2.2 (a) or (b) above applies to provide administration or settlement services in respect of one or more of the Finance Documents including without limitation, in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this sub-clause 30.2.3 if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Company and the relevant Finance Party;
- 30.2.4 to any rating agency (including its professional advisers) such Confidential Information as may be required to be disclosed to enable such rating agency to
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carry out its normal rating activities in relation to the Finance Documents and/or the Company if the rating agency to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information.

30.3 Disclosure to numbering service providers

30.3.1 Any Finance Party may disclose to any national or international numbering service provider appointed by that Finance Party to provide identification numbering services in respect of this Agreement, the Facility and/or the Company the following information:

- (a) name of the Company;
- (b) country of domicile of the Company;
- (c) place of incorporation of the Company;
- (d) date of this Agreement;
- (e) the names of the Facility Agent and the Arranger;
- (f) date of each amendment and restatement of this Agreement;
- (g) amount of Total Commitments;
- (h) currencies of the Facility;
- (i) type of Facility;
- (j) ranking of Facility;
- (k) Final Maturity Date for the Facility;
- (l) changes to any of the information previously supplied pursuant to paragraphs (a) to (k) above; and
- (m) such other information agreed between such Finance Party and the Company,

to enable such numbering service provider to provide its usual syndicated loan numbering identification services.

30.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or the Company by a numbering service provider and the information associated with each such number may be disclosed to users of its services in accordance with the standard terms and conditions of that numbering service provider.

30.3.3 The Company represents that none of the information set out in paragraphs (a) to (m) of sub-clause 30.3.1 above is, nor will at any time be, unpublished price-sensitive information.

30.3.4 The Facility Agent shall notify the Company and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the Facility Agent in respect of this Agreement, the Facility and/or the Company; and
- (b) the number or, as the case may be, numbers assigned to this Agreement, the Facility and/or the Company by such numbering service provider.

31. CONFIDENTIALITY OF FUNDING RATES AND REFERENCE BANK QUOTATIONS

31.1 Confidentiality and disclosure

31.1.1 The Facility Agent and each Obligor agree to keep each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) confidential and not to disclose it to anyone, save to the extent permitted by sub-clause 31.1.2, 31.1.3 and 31.1.4 below.

31.1.2 The Facility Agent may disclose:

- (a) any Funding Rate (but not, for the avoidance of doubt, any Reference Bank Quotation) to the Company pursuant to Clause 11.4 (*Notification of rates of interest*); and
- (b) any Funding Rate or any Reference Bank Quotation to any person appointed by it to provide administration services in respect of one or more of the Finance Documents to the extent necessary to enable such service provider to provide those services if the service provider to whom that information is to be given has entered into a Confidentiality Undertaking.

31.1.3 The Facility Agent may disclose any Funding Rate or any Reference Bank Quotation, and each Obligor may disclose any Funding Rate, to:

- (a) any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors and partners if any person to whom that Funding Rate or Reference Bank Quotation is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of that Funding Rate or Reference Bank Quotation or is otherwise bound by requirements of confidentiality in relation to it;
- (b) any person to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances;
- (c) any person to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes if the person to whom that Funding Rate or Reference Bank Quotation is to be given is informed in writing of its confidential nature and that it may be price-sensitive information except that there shall be no requirement to so inform if, in the opinion of the Facility Agent or the relevant Obligor, as the case may be, it is not practicable to do so in the circumstances; and
- (d) any person with the consent of the relevant Lender or Reference Bank, as the case may be.

31.1.4 The Facility Agent's obligations in this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*) relating to Reference Bank Quotations

are without prejudice to its obligations to make notifications under Clause 11.4 (*Notification of rates of interest*) provided that (other than pursuant to paragraph (a) of sub-clause 31.1.2 above) the Facility Agent shall not include the details of any individual Reference Bank Quotation as part of any such notification.

31.2 Other obligations

- 31.2.1 The Facility Agent and each Obligor acknowledge that each Funding Rate (and, in the case of the Facility Agent, each Reference Bank Quotation) is or may be price-sensitive information and that its use may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Facility Agent and each Obligor undertake not to use any Funding Rate or, in the case of the Facility Agent, any Reference Bank Quotation for any unlawful purpose.
- 31.2.2 The Facility Agent and each Obligor agree (to the extent permitted by law and regulation) to inform the relevant Lender or Reference Bank, as the case may be:
- (a) of the circumstances of any disclosure made pursuant to paragraph (b) of sub-clause 31.1.3 above except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
 - (b) upon becoming aware that any information has been disclosed in breach of this Clause 31 (*Confidentiality of Funding Rates and Reference Bank Quotations*).

32. SET-OFF

- 32.1.1 A Finance Party may set off any matured obligation owed to it by the Company under the Finance Documents (to the extent beneficially owned by that Finance Party) against any obligation (whether or not matured) owed by that Finance Party to the Company, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Finance Party may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.
- 32.1.2 Any credit balances taken into account by an Ancillary Lender when operating a net limit in respect of any overdraft under an Ancillary Facility shall on enforcement of the Finance Documents be applied first in reduction of the overdraft provided under that Ancillary Facility in accordance with its terms.

33. PRO RATA SHARING

33.1 Redistribution

- 33.1.1 If any amount owing by the Company under this Agreement to a Lender (the "**recovering Lender**") is discharged by payment, set-off or any other manner other than through the Facility Agent under this Agreement (a "**recovery**"), then:
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- (a) the recovering Lender must, within three Business Days, supply details of the recovery to the Facility Agent;
- (b) the Facility Agent must calculate whether the recovery is in excess of the amount which the recovering Lender would have received if the recovery had been received by the Facility Agent under this Agreement; and
- (c) the recovering Lender must pay to the Facility Agent an amount equal to the excess (the "**redistribution**").

Sub-clause 33.1.1 above shall not apply to any amount received or recovered by an Ancillary Lender in respect of any cash cover provided for the benefit of that Ancillary Lender.

33.2 **Effect of redistribution**

33.2.1 The Facility Agent must treat a redistribution as if it were a payment by the Company under this Agreement and distribute it among the Lenders, other than the recovering Lender, accordingly.

33.2.2 When the Facility Agent makes a distribution under sub-clause 33.2.1 above, the recovering Lender will be subrogated to the rights of the Finance Parties which have shared in that redistribution.

33.2.3 If and to the extent that the recovering Lender is not able to rely on any rights of subrogation under sub-clause 33.2.2 above, the Company will owe the recovering Lender a debt which is equal to the redistribution, immediately payable and of the type originally discharged.

33.2.4 If:

- (a) a recovering Lender must subsequently return a recovery, or an amount measured by reference to a recovery, to the Company; and
- (b) the recovering Lender has paid a redistribution in relation to that recovery,

each Finance Party must reimburse the recovering Lender all or the appropriate portion of the redistribution paid to that Finance Party, together with interest for the period while it held the re-distribution. In this event, the subrogation in sub-clause 33.2.2 above will operate in reverse to the extent of the reimbursement.

33.3 **Exceptions**

Notwithstanding any other term of this Clause 32.1.1, a recovering Lender need not pay a redistribution to the extent that:

33.3.1 it would not, after the payment, have a valid claim against the Company in the amount of the redistribution; or

33.3.2 it would be sharing with another Finance Party any amount which the recovering Lender has received or recovered as a result of legal or arbitration proceedings, where:

- (a) the recovering Lender notified the Facility Agent of those proceedings; and
- (b) the other Finance Party had an opportunity to participate in those proceedings but did not do so or did not take separate legal or arbitration proceedings as soon as reasonably practicable after receiving notice of them.

33.4 Ancillary Lenders

33.4.1 This Clause 32 shall not apply to any receipt or recovery by a Lender in its capacity as an Ancillary Lender at any time prior to service of notice under Clause 22.15 (*Acceleration*).

33.4.2 Following service of notice under Clause 22.15 (*Acceleration*), this Clause 32 shall apply to all receipts or recoveries by Ancillary Lenders except to the extent that the receipt or recovery represents a reduction from the Permitted Gross Outstandings of a Multi-account Overdraft to or towards an amount equal to its Designated Net Amount.

34. SEVERABILITY

34.1 If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any jurisdiction, that shall not affect:

34.1.1 the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or

34.1.2 the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

35. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

36. NOTICES

36.1 In writing

36.1.1 Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:

- (a) in person, by post, or fax or any other electronic communication approved by the Facility Agent; or

- (b) if between the Facility Agent and a Lender and the Facility Agent and the Lender agree, by e-mail or other electronic communication.

36.1.2 For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.

36.1.3 Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

36.2 Contact details

36.2.1 Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the Facility Agent on or before the date it becomes a Party.

36.2.2 The contact details of the Company for this purpose are:

Address: Avonbank, Feeder Road, Bristol BS2 0TB

Fax number: 01179 332 108

Phone number: 01179 332 354

E-mail: jhunt9@westernpower.co.uk

Attention: Julie Hunt

The contact details of the Facility Agent for this purpose are:

Address: Mizuho Bank, Ltd.

Bracken House

One Friday Street

London

EC4M 9JA

Fax number: +44 207 012 4053

E-mail: maria.delellis@mhcb.co.uk

Attention: Loan Agency, Maria De Lellis

36.2.3 Any Party may change its contact details by giving five Business Days' notice to the Facility Agent or (in the case of the Facility Agent) to the other Parties.

36.2.4 Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

36.3 Effectiveness

36.3.1 Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:

- (a) if delivered in person, at the time of delivery;

- (b) if posted, five days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (c) if by fax, when received in legible form.

36.3.2 A communication given under sub-clause 36.3.1 above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.

36.3.3 A communication to the Facility Agent will only be effective on actual receipt by it.

36.4 **The Company**

All formal communication under the Finance Documents to or from the Company must be sent through the Facility Agent.

36.5 **Communication when Facility Agent is Impaired Agent**

If the Facility Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Facility Agent, communicate with each other directly and (while the Facility Agent is an Impaired Agent) all the provisions of the Finance Documents which require communications to be made or notices to be given to or by the Facility Agent shall be varied so that communications may be made and notices given to or by the relevant Parties directly. This provision shall not operate after a replacement Facility Agent has been appointed.

37. **LANGUAGE**

37.1.1 Any notice given in connection with a Finance Document must be in English.

37.1.2 Any other document provided in connection with a Finance Document must be:

- (a) in English; or
- (b) (unless the Facility Agent otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

38. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

39. **ENFORCEMENT**

39.1 **Jurisdiction**

39.1.1 The English courts have exclusive jurisdiction to settle any dispute in connection with any Finance Document including a dispute relating to any non-contractual obligation arising out of or in connection with this Agreement.

39.1.2 The English courts are the most appropriate and convenient courts to settle any such dispute and the Company waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

39.1.3 This Clause is for the benefit of the Finance Parties only. To the extent allowed by law, a Finance Party may take:

- (a) proceedings in any other court; and
- (b) concurrent proceedings in any number of jurisdictions.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

**SCHEDULE 1
ORIGINAL PARTIES**

Name of Original Lender	Commitment	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
Abbey National Treasury Services plc (trading as Santander Global Banking & Markets)	£30,625,000	
Barclays Bank PLC	£30,625,000	
HSBC Bank plc	£30,625,000	
Lloyds Bank plc	£30,625,000	
Mizuho Bank, Ltd.	£30,625,000	
Royal Bank of Canada	£30,625,000	
The Royal Bank of Scotland plc	£30,625,000	
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	£30,625,000	
Total	£245,000,000	

SCHEDULE 2
CONDITIONS PRECEDENT DOCUMENTS

[SATISFIED]

**SCHEDULE 3
REQUESTS**

To: Mizuho Bank, Ltd. as Facility Agent
From: Western Power Distribution (South West) plc
Date: [•]

Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request unless given a different meaning in this Request.
2. We wish to borrow a Loan on the following terms:
 - (a) Drawdown Date: [•]
 - (b) Amount/currency: [•]
 - (c) Term: [•]
3. Our payment instructions are: [•]
4. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. We confirm that as at [relevant testing date] Consolidated EBITDA was [•] and Interest Payable was [•]; therefore, the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
6. We confirm that as at [relevant testing date] Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore, Total Net Debt does not exceed an amount equal to 85% of the Regulatory Asset Base.
7. This Request is irrevocable.

By:

Western Power Distribution (South West) plc

SCHEDULE 4
FORM OF TRANSFER CERTIFICATE

To: **Mizuho Bank, Ltd.** as Facility Agent

From: [THE EXISTING LENDER] (the **Existing Lender**) and [THE NEW LENDER] (the **New Lender**)

Date: [•]

Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time) (the "Agreement")

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have the same meaning in this Transfer Certificate unless given a different meaning in this Transfer Certificate.

1. The Existing Lender and the New Lender agree to the Existing Lender transferring by novation to the New Lender, and in accordance with Clause 29.3 (*Procedure for transfer by way of novation*), all of the Existing Lender's rights and obligations under the Agreement and the other Finance Documents which relate to that portion of the Existing Lender's Commitment(s) and participations in Loans under the Agreement as specified in the Schedule below.
2. The proposed Transfer Date is [•].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
 - (a) [a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]
 - (b) [a Treaty Lender;]
 - (c) [not a Qualifying Lender].*
5. [The New Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:
 - (a) a company resident in the United Kingdom for United Kingdom tax purposes; or
 - (b) a partnership each member of which is:
 - (i) a company so resident in the United Kingdom; or
 - (ii) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of

the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

- (c) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**
6. [The New Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

- * Delete as applicable - each New Lender is required to confirm which of these three categories it falls within.
- ** Include if New Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).
- *** Insert jurisdiction of tax residence.
- **** This confirmation must be included if the New Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.
7. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by English law.
-

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices and payment details etc.]

[EXISTING LENDER]

[NEW LENDER]

By:

By:

The Transfer Date is confirmed by the Facility Agent as [•].

[•]

By:

SCHEDULE 5
FORM OF COMPLIANCE CERTIFICATE

To: **Mizuho Bank, Ltd.** as Facility Agent

From: **Western Power Distribution (South West) plc**

Date: [•]

Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meaning in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We confirm that as at [*relevant testing date*], Consolidated EBITDA was [•] and Interest Payable was [•], therefore the ratio of Consolidated EBITDA to Interest Payable was [•] to 1.
3. We confirm that as at [*relevant testing date*], Regulatory Asset Base was [•] and Total Net Debt was [•]; therefore Total Net Debt does not exceed 85% of the Regulatory Asset Base.
4. We set out below calculations establishing the figures in paragraphs 2 and 3 above:
[•].
5. We confirm that the following companies were Material Subsidiaries at [*relevant testing date*]:
[•].
6. [We confirm that no Default is outstanding as at [*relevant testing date*].] ¹

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

By:

Director

Director

¹ If this statement cannot be made, the certificate should identify any Default that is outstanding and the steps, if any, being taken to remedy it.

SCHEDULE 6
FORM OF INCREASE CONFIRMATION

To: **Mizuho Bank, Ltd.** as Facility Agent and **Western Power Distribution (South West) plc** as Company

From: [the *Increase Lender*] (the "**Increase Lender**")

Dated: [•]

Western Power Distribution (South West) plc - £245,000,000 Facilities Agreement dated 12 January 2012 (as amended and restated from time to time) (the "Agreement")

1. We refer to the Agreement. This is an Increase Confirmation. Terms defined in the Agreement have the same meaning in this Increase Confirmation unless given a different meaning in this Increase Confirmation.
 2. We refer to Clause 2.2 (*Increase*) of the Agreement.
 3. In accordance with the terms of the Agreement, the Increase Lender agrees to assume and will assume all of the obligations corresponding to the Commitment specified in the Schedule (the "**Relevant Commitment**") as if it was an Original Lender under the Agreement.
 4. The proposed date on which the increase in relation to the Increase Lender and the Relevant Commitment is to take effect (the "**Increase Date**") is [•].
 5. On the Increase Date, the Increase Lender becomes party to the Finance Documents as a Lender.
 6. The Facility Office and address, fax number and attention details for notices to the Increase Lender are set out in the Schedule.
 7. The Increase Lender expressly acknowledges the limitations on the Lenders' obligations referred to in Clause 2.2 (*Increase*).
 8. The Increase Lender confirms, for the benefit of the Facility Agent and without liability to the Company, that it is:
-

8.1.1[a Qualifying Lender falling within paragraph (a)(i) or paragraph (b) of the definition of Qualifying Lender;]

8.1.2[a Treaty Lender;]

8.1.3[not a Qualifying Lender].*

9. [The Increase Lender confirms that the person beneficially entitled to interest payable to that Lender in respect of an advance under a Finance Document is either:

9.1.1a company resident in the United Kingdom for United Kingdom tax purposes; or

9.1.2a partnership each member of which is:

(1) a company so resident in the United Kingdom; or

(2) a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account in computing its chargeable profits (within the meaning of section 19 of the CTA) the whole of any share of interest payable in respect of that advance that falls to it by reason of Part 17 of the CTA; or

9.1.3a company not so resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which brings into account interest payable in respect of that advance in computing the chargeable profits (within the meaning of section 19 of the CTA) of that company.]**

10. [The Increase Lender confirms (for the benefit of the Facility Agent and without liability to the Company) that it is a Treaty Lender that holds a passport under the HMRC DT Treaty Passport scheme (reference number [•]), and is tax resident in [•] *** so that interest payable to it by the Company is generally subject to full exemption from UK withholding tax and notifies the Company that the Company must make an application to HM Revenue & Customs under form DTTP2 within 30 days of the Transfer Date.]****

NOTES:

Delete as applicable - each Increase Lender is required to confirm which of these three categories it falls within.

** Include if Increase Lender comes within paragraph (a)(ii) of the definition of Qualifying Lender in Clause 14.1 (*Definitions*).

*** Insert jurisdiction of tax residence.

**** This confirmation must be included if the Increase Lender holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to the Agreement.

11. This Increase Confirmation may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of this Increase Confirmation.
 12. This Increase Confirmation and any non-contractual obligations arising out of or in connection with it are governed by English law.
 13. This Increase Confirmation has been entered into on the date stated at the beginning of this Increase Confirmation.
-

THE SCHEDULE

Relevant Commitment/rights and obligations to be assumed by the Increase Lender

[insert relevant details]

[Facility office address, fax number and attention details for notices and account details for payments]

[Increase Lender]

By:

This Increase Confirmation is confirmed as an Increase Confirmation for the purposes of the Agreement by the Facility Agent and the Increase Date is confirmed as [•].

Facility Agent

By:

as Facility Agent for and on behalf of each of the parties to the Agreement (other than the Increase Lender)

**SCHEDULE 7
TIMETABLES**

	Loans in euro	Loans in sterling	Loans in other currencies
Facility Agent notifies the Company if a currency is approved as an Optional Currency in accordance with Clause 4.3 (<i>Conditions relating to Optional Currencies</i>)	-	-	U-4
Delivery of a duly completed Request (Clause 5.2 (<i>Completion of Requests</i>))	U-3 9:30 a.m.	U-1 9:30 a.m.	U-3 9:30 a.m.
Facility Agent determines (in relation to a Loan) the Base Currency Amount of the Loan, if required under Clause 5.4 (<i>Advance of Loan</i>) and notifies the Lenders of the Loan in accordance with Clause 5.4 (<i>Advance of Loan</i>)	U-3 Noon	U-1 Noon	U-3 Noon
Facility Agent receives a notification from a Lender under Clause 7.2.1 (<i>Revocation of a currency</i>)	Quotation Day	-	Quotation Day
Facility Agent gives notice in accordance with Clause 7.2 (<i>Revocation of a currency</i>)	Quotation Day 5:30 p.m.	-	Quotation Day 5:30 p.m.
LIBOR or EURIBOR is fixed	Quotation Day as of 11:00 a.m. London time in respect of LIBOR and as of 11:00 a.m. (Brussels time) in respect of EURIBOR	Quotation Day as of 11:00 a.m.	Quotation Day as of 11:00 a.m.

"U" = date of utilisation

"U-X" = X Business Days prior to date of utilisation.

SCHEDULE 8
FORM OF SUBORDINATION DEED

THIS SUBORDINATION DEED is entered into as a deed on [] and is made **BETWEEN**:

1. WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC (registered number 02366894) (the **Company**);
2. [SUBORDINATED CREDITOR] (the **Subordinated Creditor**); and
3. [], as Facility Agent acting on behalf of the Lenders (the **Facility Agent**).

1. **INTERPRETATION**

1.1 **Definitions**

In this Deed:

Agreement means the £245,000,000 Multicurrency Revolving Facility Agreement dated 12 January 2012 as amended from time to time between, amongst others, the Company and Mizuho Bank, Ltd. as Facility Agent.

Certificate means a document substantially in the form set out in Annex 2 (*Form of Certificate*).

Party means a party to this Deed.

Permitted Subordinated Debt Payment means:

- (a) the repayment or prepayment of any principal amount (or capitalised interest) outstanding under the Subordinated Finance Document;
- (b) the payment of any interest, fee or charge accrued or due under or any other amount payable in connection with the Subordinated Finance Document; or
- (c) the purchase, redemption, defeasance or discharge of any amount outstanding under the Subordinated Finance Document,

provided that the Company, prior to any action referred to in paragraphs (a) to (c) above being taken, delivers to the Facility Agent a Certificate, signed by two directors of the Company, certifying that, taking into account any such action, the Company will be in compliance with its obligations under Clause 20 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates.

Senior Debt means any present or future liability (actual or contingent) payable or owing by the Company to a Finance Party under or in connection with the Finance Documents.

Senior Debt Discharge Date means the date on which all the Senior Debt has been unconditionally and irrevocably paid and discharged in full and no Finance Party has any commitment or liability, whether present or future, actual or contingent, in relation to the Facility, as determined by the Facility Agent.

Subordinated Creditor Accession Deed means a deed substantially in the form set out in 0 (*Form of Subordinated Creditor Accession Deed*).

Subordinated Debt means any present or future liability (actual or contingent) payable or owing by the Company to the Subordinated Creditor under or in connection with any Subordinated Finance Document.

Subordinated Finance Document means [●].

1.2 Construction

- 1.2.1 Capitalised terms defined in the Agreement have the same meaning in this Deed, unless given a different meaning in this Deed.
- 1.2.2 The principles of construction set out in the Agreement will have effect as if set out in this Deed.
- 1.2.3 Any undertaking by the Subordinated Creditor in this Deed remains in force from the date of this Deed to the Senior Debt Discharge Date.

1.3 Third Party rights

Unless otherwise indicated and save in respect of any other creditor under any of the Finance Documents, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Act 1999 (or any other applicable law) to enforce any term of this Deed.

2. SUBORDINATION

2.1 Ranking

Each of the Parties hereby agrees that the Senior Debt, whether secured or unsecured, shall rank senior in priority to the Subordinated Debt.

2.2 Undertakings of the Company

The Company must not without the prior consent of the Lenders:

- 2.2.1 make any payment whatsoever in respect of the Subordinated Debt other than a Permitted Subordinated Debt Payment; or
- 2.2.2 secure, in any manner, all or any part of the Subordinated Debt; or

- 2.2.3 defease, in any manner, all or any part of the Subordinated Debt; or
- 2.2.4 give any financial support (including the taking of any participation, the giving of any guarantee or other assurance or the making of any deposit) to any person in connection with all or any part of the Subordinated Debt; or
- 2.2.5 procure any other person to do any of the acts or take any of the actions referred to paragraphs 2.2.1 to 2.2.4 above.

2.3 Undertakings of the Subordinated Creditor

- 2.3.1 The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (a) allow to exist or receive the benefit of any Security Interest, guarantee, indemnity or other assurance against loss in respect of all or any of the Subordinated Debt or all or any rights which it may have against the Company in respect of all or any part of the Subordinated Debt; or
 - (b) take or omit to take any action or step whereby the subordination of all or any of the Subordinated Debt might be terminated, impaired or adversely affected.
 - 2.3.2 The Subordinated Creditor will not without the prior written consent of the Lenders receive any payment save where such payment is a Permitted Subordinated Debt Payment.
 - 2.3.3 The Subordinated Creditor will not without the prior written consent of the Lenders:
 - (a) demand payment, declare prematurely due and payable or otherwise seek to accelerate payment of or place on demand all or any part of the Subordinated Debt or enforce the Subordinated Debt by execution or otherwise;
 - (b) initiate or support or take any steps with a view to, or which may lead to:
 - (i) any insolvency, liquidation, reorganisation, administration or dissolution proceedings;
 - (ii) any voluntary arrangement or assignment for the benefit of creditors; or
 - (iii) any similar proceedings,involving the Company or any of its Subsidiaries, whether by petition, convening a meeting, voting for a resolution or otherwise;
 - (c) bring or support any legal proceedings against the Company or any of its Subsidiaries; or
-

(d) otherwise exercise any remedy for the recovery of all or any part of the Subordinated Debt (including, without limitation, the exercise of any right of set-off, counterclaim or lien).

2.3.4 If the Subordinated Creditor receives any payment which is in breach of any Finance Document, it shall hold such sums on trust for the Facility Agent (acting on behalf of the Lenders) and pay them immediately to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.

2.3.5 The Subordinated Creditor and the Company hereby agree for the benefit of the Facility Agent and the Lenders that, notwithstanding the terms of the Subordinated Finance Document and any agreement relating to the Subordinated Debt, the Subordinated Debt is made available on terms such that it is not, save for a Permitted Subordinated Debt Payment or otherwise with the consent of the Lenders, repayable unless and until the Senior Debt Discharge Date shall have occurred.

2.4 Subordination on insolvency

If there occurs any payment, distribution, division or application, partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of any kind or character of the Company or the proceeds thereof, to creditors of the Company, by reason of the liquidation, dissolution or other winding-up of the Company or its businesses or any bankruptcy, reorganisation, receivership or insolvency or similar proceeding or any assignment for the benefit of creditors or there is a marshalling of the assets and liabilities of the Company, or the Company becomes subject to any event mentioned in clause 22.6 (*Insolvency proceedings*) of the Agreement or a voluntary arrangement, then and in any such event:

2.4.1 the Subordinated Debt shall continue to be subordinated to the Senior Debt;

2.4.2 any payment or distribution of any kind or character and all and any rights in respect thereof, whether in cash, securities or other property which is payable or deliverable upon or with respect to the Subordinated Debt or any part thereof by a liquidator, administrator or receiver (or the equivalent thereof) of the Company or its estate (the "**rights**") made to or paid to, or received by the Subordinated Creditor or to which the Subordinated Creditor is entitled shall be held on trust by the Subordinated Creditor for the Lenders and shall forthwith be paid or, as the case may be, transferred or assigned to the Lenders to be applied against the Senior Debt;

2.4.3 if the trust referred to in paragraph 2.4.2 above or paragraph 2.3.4 of Clause 2.3 above fails or cannot be given effect to or if the Subordinated Creditor receives and retains the relevant payment or distribution, the Subordinated Creditor will pay over such rights in the form received to the Facility Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;

2.4.4 the Subordinated Creditor acknowledges the rights of the Facility Agent (acting on behalf of the Lenders) to demand, sue and prove for, collect and receive every payment or distribution referred to in paragraph 2.4.2 above and give acquittance

therefore and to file claims and take such other proceedings, in the Facility Agent's own name or otherwise, as the Facility Agent may deem necessary or advisable for the enforcement of this Deed; and

- 2.4.5 the Subordinated Creditor by way of security for its obligations under this Deed irrevocably appoints the Facility Agent to be its attorney in order to enable the Facility Agent to enforce any and all claims upon or with respect to the Subordinated Debt or any part thereof, and to collect and receive any and all payments or distributions referred to in paragraph 2.4.2 above or to do anything which that Subordinated Creditor has authorised the Facility Agent or any other Party to do under this Deed or is itself required to do under this Deed but has failed to do (and the Facility Agent may delegate that power on such terms as it sees fit).

3. SET-OFF

- 3.1.1 The Subordinated Creditor shall not set off against the Subordinated Debt any amount payable by the Subordinated Creditor to the Company.
- 3.1.2 If any part of the Subordinated Debt is discharged in whole or in part by way of set-off, the Subordinated Creditor will promptly pay to the Facility Agent for application in accordance with the terms of paragraph 2.4.2 of Clause 2.4 (*Subordination on insolvency*) an amount equal to the amount of the Subordinated Debt discharged by such set-off.

4. NEW MONEY

The Subordinated Creditor hereby agrees that the Facility Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Company and make further advances to the Company, and each such advance will be deemed to be made under the terms of the Agreement.

5. PROTECTION OF SUBORDINATION

- 5.1.1 The subordination in this Deed is a continuing subordination and benefits the ultimate balance of the Senior Debt.
- 5.1.2 Except as provided in this Deed, the subordination is, and the Subordinated Creditor's obligations under this Deed will, not be affected by any act, omission or thing which, but for this provision, would reduce, release or prejudice the subordination or any of the Subordinated Creditor's obligations under this Deed.

6. MISCELLANEOUS

- 6.1.1 This Deed overrides anything in any Subordinated Finance Document to the contrary.
- 6.1.2 Any communication in respect of this Deed must be in writing. Contact details for each Party are set out opposite their name, below.
-

6.1.3 This Deed is a Finance Document.

7. ASSIGNMENT

7.1.1 The Facility Agent (acting on behalf of the Lenders) shall have the full and unfettered right to assign or otherwise transfer the whole or any part of the benefit of this Deed to any person to whom all or a corresponding part of its rights, benefits and obligations under any of the Finance Documents are assigned or transferred in accordance with their provisions.

7.1.2 The Subordinated Creditor shall not assign or transfer all or any of its rights, title, benefit and interest in or to all or any part of the Subordinated Debt unless in full and on or prior to such assignment or transfer the assignee or transferee accedes to this Deed as Subordinated Creditor pursuant to the Subordinated Creditor Accession Deed.

8. TRUSTS

8.1.1 The Facility Agent shall hold the benefit of this Deed upon trust for itself and the Lenders.

8.1.2 The perpetuity period for each trust created by this Deed shall be 80 years.

9. TERMINATION

Subject to Clause 4 (*New Money*), on the Senior Debt Discharge Date, the terms of this Deed shall terminate.

10. GOVERNING LAW

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

11. JURISDICTION

The English courts have exclusive jurisdiction to settle any dispute including a dispute relating to non-contractual obligations arising out of or in connection with this Deed and the Parties submit to the exclusive jurisdiction of the English courts.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

Annex 1

Form of Subordinated Creditor Accession Deed

To: [●], as Facility Agent acting on behalf of the Lenders.

To: **WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC**

From: [*Acceding Subordinated Creditor*]

THIS DEED is made on [date] by [*Acceding Subordinated Creditor*] (the "**Acceding Subordinated Creditor**") in relation to the subordination deed (the "**Subordination Deed**") dated [•] between, among others, Western Power Distribution (South West) plc as Company, Mizuho Bank, Ltd. as Facility Agent and the Subordinated Creditor (as defined in the Subordination Deed). Terms defined in the Subordination Deed shall, unless otherwise defined in this Deed, bear the same meanings when used in this Deed.

In consideration of the Acceding Subordinated Creditor being accepted as the Subordinated Creditor for the purposes of the Subordination Deed, the Acceding Subordinated Creditor confirms that, as from [date], it intends to be party to the Subordination Deed as the Subordinated Creditor and undertakes to perform all the obligations expressed in the Subordination Deed to be assumed by the Subordinated Creditor and agrees that it shall be bound by all the provisions of the Subordination Deed, as if it had been an original party to the Subordination Deed as the Subordinated Creditor.

This Deed and any non-contractual obligations arising out of or in connection with it are governed by English law.

IN WITNESS whereof this Deed has been duly executed by the Parties on the day and year first above written.

SIGNATORIES

Company

EXECUTED as a DEED)
by **WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC**)
acting by)

Director

In the presence of:
Witness's Signature:

Name:

Address:

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Acceding Subordinated Creditor

EXECUTED as a DEED)
by [**ACCEDING SUBORDINATED CREDITOR**])
acting by)

Director

In the presence of:
Witness's Signature:

Name:

Address:

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED
by [AGENT]
acting by

)
)
)

Director

In the presence of:

Witness's Signature:

Name:

Address:

Facility Agent contact details:

Address:

Annex 2

Form of Certificate

To: [●] as Facility Agent

From: [Western Power Distribution (South West) plc]

Date: [●]

Western Power Distribution (South West) plc - £245,000,000 Revolving Facility Agreement dated 12 January 2012 (as amended and restated from time to time) (the "Agreement") and Subordination Deed dated [●] (as amended and restated from time to time) (the "Deed")

1. We refer to the Agreement and the Deed. Capitalised terms defined in the Deed have the same meaning in this Certificate, unless given a different meaning in this Certificate.
2. We confirm that the Company will make *[insert type of payment]* of *[insert amount and currency]* under *[insert description of relevant Subordinated Finance Document]* on *[insert date of payment]*.
3. We confirm that, taking into account such payment, the Company will be in compliance with its obligations under Clause y0 (*Financial Covenants*) of the Agreement on each of the next two Measurement Dates (as such term is defined in the Agreement).

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

By:

Director

By:

Director

SIGNATORIES

Company

EXECUTED as a DEED)
by WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC)
acting by)

Director

In the presence of:
Witness's Signature:

Name:

Address:

Company contact details:

Address: Avonbank, Feeder Road,
Bristol BS2 0TB
Fax number: 01179 332 108
Phone number: 01179 332 354
E-mail: jhunt9@wsternpower.co.uk
Attention: Julie Hunt

Subordinated Creditor

EXECUTED as a DEED)
by [SUBORDINATED CREDITOR])
acting by)

Director

In the presence of:
Witness's Signature:

Name: _____

Address: _____

Subordinated Creditor contact details:

Address:
Fax number:
Phone number:
E-mail:
Attention:

Facility Agent

EXECUTED as a DEED
by [●]
acting by

)
)
)

Director

In the presence of:
Witness's Signature:

Name: _____

Address: _____

Facility Agent contact details:

Address: Bracken House
One Friday Street
London EC4M 9JA

SIGNATORIES

THE COMPANY

Signed by
for and on behalf of

)
)
)
)

**WESTERN POWER
DISTRIBUTION (SOUTH WEST) PLC**

Address: Avonbank
Feeder Road
Bristol BS2 0TB
Fax: +44 (0) 1179 332 108

UNDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
ABBEY NATIONAL TREASURY SERVICES PLC)
(TRADING AS SANTANDER GLOBAL BANKING &)
MARKETS))
)

Address: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/David Navalon Vaquero

Fax: +44(0) 845 602 7837

South West – Conformed Copy

UNDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
)
BARCLAYS BANK PLC

Address: 5 The North Colonnade
London E14 4BB
Fax: +44 (0)20 7773 1840

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
LLOYDS BANK PLC

Address: 10 Gresham Street
London EC2V 7AE
Fax: +44 (0)20 7158 3297

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
HSBC BANK PLC

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)20 7158 3297

South West – Conformed Copy

UNDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M9JA
Fax: +44(0)207 012 4301

South West – Conformed Copy

UNDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
ROYAL BANK OF CANADA

Attention: Mike Atherton/Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912

Attention: David Banning/Maggie Weiyan Tang/
Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)

THE ROYAL BANK OF SCOTLAND PLC

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Fax: +44 (0) 7085 8762

South West – Conformed Copy

MANDATED LEAD ARRANGERS

Signed by)
for and on behalf of)
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.)

Address: Ropemaker Place
25 Ropemaker Street
London EC2Y 9AN
Attention: The Manager - Loan Participation
Fax: +44 (0)20 7557 1559

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
ABBEY NATIONAL TREASURY SERVICES PLC)
(TRADING AS SANTANDER GLOBAL BANKING &)
MARKETS))
)
)
)

Attention: 2 Triton Square
Regents Place
London NW1 3AN

Attention: Alejandro Ciruelos (for credit matters)
Samuel Russell (for administration matters)

Fax: +44 (0)20 7756 5816
with a copy to Jim Inches/ David Navalón Vaquero

Fax: +44 (0)845 602 7837

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
BARCLAYS BANK PLC)

Address: 5 The North Colonnade
London E14 4BB
Attention: Mark Pope
Fax: +44 (0)20 7773 1840

South West – Conformed Copy

THE LENDERS

Signed by for and on behalf of
LLOYDS BANK PLC

)
)

Address: 10 Gresham Street
London EC2V 7AE
Attention: Nick Walker (for credit matters)
Fax: +44 (0)20 7158 3297

Address: Wholesale Loan Services
Level 1, Citymark
Fax: 150 Fountainbridge
Edinburgh EH3 9PE
Attention: Linzi Inch (for administration matters)
Fax: +44 (0)20 7158 3204

South West – Conformed Copy

THE LENDERS

Signed by for and on behalf of)
HSBC BANK PLC)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

South West – Conformed Copy

HE LENDERS

Signed by)
for and on behalf of)
)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)20 7012 4301

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
ROYAL BANK OF CANADA

Attention: Mike Atherton/ Mark Goodin (for credit matters)
Address: Thames Court
One Queenhithe
London EC4V 4DE
Fax: +44 (0)20 7029 7912
Attention: David Banning/ Maggie Weiyan Tang/
Ahmed Awad/ Vinodkumar NalappadamVeetil
(for administration matters)
Address: Riverbank House
2 Swan Lane
London EC4R 3BF
Fax: +44 (0)20 7332 0036

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
THE ROYAL BANK OF SCOTLAND PLC)

Address: 7th Floor, 135 Bishopsgate
London EC2M 3UR
Attention: John Jones (for credit matters)
Fax: +44 (0)20 7085 8762
Attention: Lending Operations (for administration matters)
Fax: +44 (0)20 7672 6403

South West – Conformed Copy

THE LENDERS

Signed by)
for and on behalf of)
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.)
)

Address: Ropemaker Place
25 Ropemaker Street
London EC2Y 9AN
Attention: Robert Welford/Mayumi Saito-O'connor/
Kumar Shah
Attention: The Manager - Loan Participation
Fax: +44 (0)20 7557 1559

South West – Conformed Copy

THE FACILITY AGENT

Signed by)
for and on behalf of)
)

MIZUHO BANK, LTD.

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4053

South West – Conformed Copy

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
MIZUHO BANK, LTD.)

Address: Bracken House
One Friday Street
London EC4M 9JA
Fax: +44 (0)207 012 4053

South West – Conformed Copy

THE JOINT COORDINATORS

Signed by)
for and on behalf of)
HSBC BANK PLC)

Address: Sharon daw
West & Wales Corporate Banking Centre
3 Rivergate, Bristol, BS1 6ER
Fax: +44 (0)8455 877941

South West – Conformed Copy

Handelsbanken

71stol Queen Square

The Directors
Western Power Distribution (South West) plc
Avonbank
Feeder Road
Bristol
BS2 0TB

Date: 20th February 2018

Dear Sirs

In accordance with arrangements recently agreed between us, we hereby set out in this letter (the "**Facility Letter**") the terms and conditions upon which we, Svenska Handelsbanken AB (publ) (the "**Bank**"), are prepared to make available an uncommitted bond/guarantee/standby letter of credit issuance facility (the "**Facility**") to you, Western Power Distribution (South West) plc Company Number 2366894 (the "**Borrower**"). This Facility Letter is open for acceptance within 30 days of the date hereof or such later date as the Bank shall agree after which it shall expire.

The principal terms on which the Facility is made available are set out in Clause 1.1, subject to the terms and conditions contained in the remainder of this Facility Letter.

1.1 Outline Terms

• Bond:	Any bid or tender bond, advance payment bond, performance bond or other bond issued or to be issued by the Bank under this Facility Letter at the request of the Borrower (each a " Bond " and together the " Bonds ") provided that no Credit Substitute Bond shall be issued under this Facility Letter.
• Currency Adjustment Limit:	110% of the Limit.
• Foreign Currency:	The Euro and any other currency which is freely convertible and transferable into Sterling and readily available in the London Interbank Market.

Svenska Handelsbanken AB (publ)

Telephone 0117 302 0080

66 Queen Square

Fax 0117 302 0077

Bristol

www.handelsbanken.co.uk/bristolqueensquare

BS1 4JP

SWIFT HANDGB22

Handelsbanken is the trading name of Svenska Handelsbanken AB (publ). Registered Office: Svenska Handelsbanken AB (publ), 3 Thomas More Square, London, E1W 1WY. Registered in England and Wales No. BR 000589. Incorporated in Sweden with limited liability. Registered in Sweden No. 502007-7862. Head Office in Stockholm. Authorised by the Swedish Financial Supervisory Authority (Finansinspektionen) and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.

• Guarantee:	Any guarantee issued or to be issued by the Bank under this Facility Letter at the request of a Borrower (each a "Guarantee" and together the "Guarantees") provided that no Credit Substitute Guarantee shall be issued under this Facility Letter.
• Limit	£5,000,000. 00 (five million pounds sterling)
• Review Date:	On or around 31 st August annually.
• Standby Letter of Credit:	Any standby letter of credit issued or to be issued under the Facility and subject to either terms of (i) Uniform Customs and Practice for Documentary Credits (2007 Revision), International Chamber of Commerce Publication No 600 as amended by any subsequent revision or (ii) International Standby Procedures ISP98 International Chamber of Commerce Publication No 590 as amended by any subsequent revision (each a "Standby Letter of Credit" and together the "Standby Letters of Credit") provided that no Credit Substitute Standby Letter of Credit shall be issued under this Facility Letter.

1.2 Definitions and Interpretation

Unless defined elsewhere the definitions which shall apply to the Facility Letter are contained in Schedule 2.

The Facility

- 2.1 The Borrower has requested and the Bank has agreed to issue Instruments pursuant to the terms and conditions of this Facility Letter in Sterling and/or Foreign Currency.
- 2.2 Furthermore the Borrower undertakes not to use the Facility for any purpose or in any manner that would result in a breach by it, or any other person, of any provision of the Bribery Act 2010.

3 Conditions Precedent

- 3.1 The Facility shall be available for use by the Borrower only when the Bank (i) shall have received, to its satisfaction as to their form and substance, the documents and evidence set out in Schedule 1 and (ii) is satisfied that the other conditions detailed in Schedule 1 have been satisfied. The Bank shall confirm to the Borrower in writing when it is so satisfied.
- 3.2 The Conditions Precedent set out in Schedule 1 are for the sole benefit of the Bank, and the Bank may in its sole and absolute discretion make the Facility, or a part thereof, available notwithstanding that one or more of such conditions have not been fulfilled on terms that such condition or conditions shall be fulfilled within such period or periods thereafter as the Bank shall determine unless the Bank shall otherwise agree to waive such condition or conditions in its sole and absolute discretion.

4 Utilisation, Availability and Termination

1 Utilisation of the Facility ("**Facility Utilisation**") will be calculated as the Maximum Liability of all Instruments issued and in the course of being issued.

The Sterling equivalent of any Foreign Currency amount shall be used for this purpose and shall be calculated by reference to the BankRate of Exchange on the day of such calculation.

4.2 The Facility Utilisation at any time shall not exceed the Limit and the Bank is not obliged to allow or continue to allow any utilisation in excess of the Limit.

4.3 The Facility is uncommitted and shall remain available to the Borrower until further notice but shall be subject to cancellation at any time by either the Bank or the Borrower giving written notice to the other. In the event of such cancellation no further Instruments will be issued and all sums outstanding hereunder shall become due and payable to the Bank in accordance with the provisions of Clause 16 within three Business Days of the date of such demand.

4.4 The Bank shall review the Facility on each Review Date and may contact you to discuss your future requirements. Whenever we review the Facility, we may charge you a renewal fee.

4.5 Notwithstanding any other provisions of this Facility Letter if the Facility is cancelled or repayment of any part thereof is demanded, the Bank shall be entitled at the cost and expense of the Borrower to convert the Foreign Currency utilisation of the Facility into Sterling and the Borrower shall be obliged to repay all such sums in Sterling. The Bank Rate of Exchange shall be used in relation to such conversion.

5 Instruments

5.1 Subject to the prior satisfaction of the Conditions Precedent, and the Bank's agreement, the Borrower may request the Bank in writing to issue an Instrument each of which shall:-

5.1.1 be valid for a period not exceeding 2 years or such other period as the Bank may agree from time to time; and

5.1.2 only be issued where the Bank has been provided with such further supporting documentation as the Bank may at its sole discretion require.

The Bank reserves the right, in any event, to decline to issue any Instrument.

5.2 The Bank's Maximum Liability under an Instrument shall be treated as reduced for the purposes of this Facility Letter only when and to the extent that:

5.2.1 the Bank has received written confirmation from the beneficiary of the Instrument or the correspondent bank issuing such Instrument of the amount of such reduction; or

5.2.2 the Bank has made a payment under the Instrument and the terms of the Instrument allow for the Bank's Maximum Liability thereunder to be irrevocably reduced by the amount of any such payment; or

5.2.3 the Bank is otherwise satisfied that its Maximum Liability under the Instrument has been irrevocably reduced.

5.3 The Bank's Maximum Liability under an Instrument shall be treated as extinguished for the purposes of this Facility Letter only when and to the extent that:-

- 5.3.1 the Bank has received written confirmation from the beneficiary of the Instrument or the correspondent bank issuing such Instrument that the Bank's Maximum Liability under the Instrument has been extinguished and/or the Instrument is returned to the Bank; or
- 5.3.2 the Bank has settled its Maximum Liability under the Instrument in full; or
- 5.3.3 the Bank is otherwise satisfied that its Maximum Liability under the Instrument has been extinguished.

6 **Fees**

- 6.1 The Borrower shall pay any Bond, Guarantee and Standby Letter of Credit transactional fees as detailed in the Bond, Guarantee and Standby Letter of Credit tariff agreed between the Borrower and the Bank. The Borrower will be notified of any variation to the tariff by the Bank giving 30 day's notice in writing.
- 6.2 The Borrower will pay to the Bank quarterly in advance and commencing on the date of issue of the relevant Instrument an amount equal to the Risk Fee calculated on the Maximum Liability of such Instrument for such quarterly period or part thereof together with fees payable under any Bond, Guarantee and Standby Letter of Credit tariff as may be agreed between the Borrower and the Bank from time to time.
- 6.3 The Risk Fee on each Instrument shall be paid in Sterling. The Risk Fee on an Instrument denominated in Foreign Currency shall be calculated by reference to the Bank Rate of Exchange for the relevant Foreign Currency against Sterling.
- 6.4 Where an Instrument is issued by a correspondent bank such charges and commission charged by such correspondent bank shall be paid by the Borrower within three Business Days of demand by the Bank.

Indemnity

- 7.1 In consideration of the Bank issuing Instruments and such documentation as may be entered into pursuant to such Instruments (all as referred to and/or as defined elsewhere herein and referred to below as the "said obligations"), the Borrower hereby:-
 - 7.1.1 irrevocably authorises the Bank to make any payment and comply with any demand which may be claimed from or made upon it under the terms of each and any of the said obligations without any reference to or further authority from the Borrower and without enquiry into the justification therefor or validity thereof and the Borrower agrees that any payment which the Bank shall make in accordance or purporting to be in accordance with any of the said obligations shall be binding upon the Borrower and shall be accepted by the Borrower as conclusive evidence that the Bank was liable to make such payment with such demand;
 - 7.1.2 agrees that the Bank may without the knowledge or consent of the Borrower determine, renew, reduce, increase or vary in any respect the terms of the said obligations or compound with or grant time or other indulgence to or for any other person whatsoever or deal with, exchange, release, modify or abstain from perfecting or enforcing any security or other guarantee or right which the Bank now has or may hereafter have against the Borrower or any such other person, and this indemnity shall not be discharged nor shall the liability of the Borrower under it be impaired or discharged by any of those matters;

- 7.1.3 agrees and undertakes at all times hereafter to well and sufficiently indemnify the Bank and keep the Bank indemnified from and against all payments made under each and any of the said obligations, all claims made upon by the Bank under the terms of any Instrument and against all actions, suits, proceedings, claims, demands, liabilities, losses, costs, charges, damages and expenses whatsoever in relation to or arising out of each and any of the said obligations and to pay or reimburse to the Bank within three Business Days of demand an amount equal to the amount of any claim made upon the Bank under the terms of any Instrument and all payments, losses, costs, and expenses made, suffered or incurred by it under each and any of the said obligations or in consequence thereof or arising therefrom;
- 7.1.4 irrevocably authorises the Bank (without prejudice to any other right the Bank may have) to (i) debit to an account in the name of the Borrower or to any of their accounts with the Bank all such payments, losses, costs and expenses whether such account or accounts is or are overdrawn or may become overdrawn by reason of any such debit; (ii) open, in the Borrower's name, such accounts as the Bank shall see fit; and (iii) carry out, at the Borrower's expense, any foreign exchange transactions as may be necessary to enable the Bank to debit an account notwithstanding that the payments owing under the Instrument may have been in a Foreign Currency; and
- 7.1.5 agrees that its obligations under this Clause 7:-
- (i) shall be unconditional and are and will remain in full force and effect by way of continuing indemnity until full and irrevocable discharge of all the said obligations;
 - (ii) are additional to, and not in substitution for, any security, guarantees, other indemnities or rights of subrogation at any time existing in favour of the Bank, whether granted by the Borrower or any other person, and are cumulative and not exclusive of any rights or remedies provided by law; and
 - (iii) shall not be affected by (1) any invalidity, illegality, irregularity or unenforceability of or defect in any provision of this Facility Letter, (2) any time, indulgence, waiver or consent at any time given to the Borrower or any other person, (3) any amendment to this Facility Letter, (4) the enforcement or absence of enforcement of any claim against the Borrower or of any other security, guarantee or indemnity, (5) the release of any such claim, security, guarantee or indemnity, (6) the dissolution, amalgamation, reconstruction or reorganisation of the Borrower or (7) any other matter or thing whatsoever which might affect the Borrower's obligations under this Facility Letter, except for full and irrevocable payment and discharge of all the obligations of the Borrower to the Bank in respect of all the said obligations.
- 7.2 The obligations of the Borrower under this Clause 7 shall survive the payment in full of the liabilities of the Bank under the said obligations and shall only terminate when the Instrument and/or other documents evidencing the said obligations, if applicable, are returned to the Bank marked "cancelled" (or other similar wording acceptable to the Bank) or the Bank is satisfied that it has no further liabilities in respect thereof. The Borrower agrees to use all reasonable endeavours to procure the return to the Bank of the Instrument and any other documents evidencing the said obligations, upon expiry or payment in full by the Bank of all sums payable thereunder.
- 7.3 This indemnity shall constitute and be a continuing security to the Bank for as long as any liabilities shall remain upon the Bank in respect of the said obligations and shall extend to any and all extensions, renewals or replacements thereof. The Bank's certificate in respect of any amounts called for shall be final and conclusive, save for manifest error.
-

8 **Increased Costs, Default Interest and Currency Adjustment Limit**

8.1 The Borrower shall, within three Business Days of a demand by the Bank, pay the Bank the amount of any Increased Costs incurred by the Bank as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law, regulation or directive (whether or not having the force of law) or (ii) compliance with any law, regulation or directive (whether or not having the force of law) made after the date of this Facility Letter.

8.2 In this Facility Letter "Increased Costs" means:

8.2.1 a reduction in the rate of return from the Facility or on the Bank's overall capital;

8.2.2 an additional or increased cost; or

8.2.3 a reduction of any amount due and payable under this Facility Letter,

which is incurred or suffered by the Bank to the extent that it is attributable to the Bank having entered into this Facility Letter or funding or performing its obligations under this Facility Letter.

8.3 The Bank prior to making a claim pursuant to Clause 8.1 above shall notify the Borrower of the event giving rise to the claim and shall, as soon as practicable after a demand by the Borrower, provide a certificate confirming the amount of its Increased Costs.

8.4 If the Borrower shall fail to pay any sum due hereunder or under the judgement of any court in connection herewith on the due date therefor, then as a separate obligation the Borrower shall pay to the Bank interest at the Default Rate on any such sum due to the Bank up to the date on which such sum is repaid and any other amounts outstanding under this Facility Letter have been paid in full. Interest shall be payable at the rate both before and after demand, court decree or judgment on such dates advised by the Bank to the Borrower any such interest which is not paid when due shall be added to the overdue sum and itself bear interest accordingly.

5 **Currency Adjustments**

In the event that the Facility is utilised in a Foreign Currency the Bank will, from time to time, calculate the Sterling equivalent of the sums outstanding under the Facility on the basis of the Bank Rate of Exchange on the day of such calculation. In the event that the Sterling equivalent of the sums outstanding under the Facility exceeds the Currency Adjustment Limit then the Borrower shall deposit with the Bank, on the Bank's first demand, such sums as the Bank shall require (to be held in a blocked account in the name of the Borrower maintained with the Bank) to reduce the Sterling equivalent of the Bank's Maximum Liability under the Facility to within the Limit when such deposit is deducted from the Bank's Maximum Liability.

8.6 The Bank's certificate as to the amounts due pursuant to this Clause 8 shall be final and conclusive, save for manifest error.

9 **Financial Information**

The Borrower shall forthwith provide to the Bank such financial information as the Bank may request from time to time including, but not limited to the Financial Statements of the Borrower within 180 days of the end of each financial year.

10 **Payments, Calculations and Tax Indemnity**

10.1 All interest shall accrue from day to day and be calculated on the basis of the actual number of days elapsed within a year of 365 days or 360 days as appropriate dependent upon the currency.

- 10.2 All sums payable by the Borrower to the Bank shall be paid without deduction for or on account of any set-off or counter-claim and free and clear of any deduction or withholding of any nature (including taxation) unless such a deduction or withholding is required by law.
- 10.3 If any amount is required by law to be deducted or withheld from any sum payable hereunder then the Borrower shall pay such an additional amount as will ensure that, after the making of such deduction or withholding, the Bank shall receive a net sum equal to the sums which the Bank would have received had no such deduction or withholding been required to be made.
- 10.4 If it becomes necessary to convert into another currency any amount due by the Borrower hereunder or under any Instrument the Borrower undertakes as an independent obligation to pay such additional amounts as may be necessary to ensure that the total amount paid in the second currency when converted at the Bank Rate of Exchange on the date of payment to the Bank will produce the amount then due from the Borrower to the Bank in the original currency.
- 10.5 The Borrower shall (within three Business Days of demand by the Bank) pay to the Bank an amount equal to the loss, liability or cost which the Bank determines will be or has been (directly or indirectly) suffered for or on account of Tax by the Bank in respect of the Facility Letter.
- 10.6 Clause 10.5 above shall not apply:
- 10.6.1 with respect to any Tax assessed on the Bank under the law of the jurisdiction in which the Bank is incorporated or, if different, the jurisdiction (or jurisdictions) in which the Bank is treated as resident for tax purposes, if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by the Bank; or
- 10.6.2 to the extent a loss, liability or cost is compensated for by an increased payment under Clause 10.3.
- 10.7 If the Bank makes (or intends to make) a claim under Clause 10.5 above, it shall notify the Borrower as soon as is reasonably practicable of the event which has caused (or will cause) that claim, however, the Bank's entitlement to exercise its rights under Clause 10.5 above is not conditional on such notification being made in accordance with this Clause 10.7.
- 10.8 For the purposes of Clauses 10.5 and 10.6:
- "Tax" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

11 Security

The Facility will be secured by any security which the Bank may in the future obtain in accordance with Clause 8.5 and Clause 16.2

12 Set-Off

- 12.1 In addition to any other rights to which it may be entitled, the Bank may retain, set off or appropriate any credit balances in name of the Borrower (whether current or not yet due) against any of the Borrower's obligations to the Bank under this Facility Letter that are overdue from time to time. The Bank may exercise any of these rights without prior notice both before and after demand and in so doing may convert to Sterling at the Bank Rate of Exchange any balance which is in a currency other than Sterling.
- 12.2 Nothing expressed or implied in this Facility Letter or any other document in connection herewith shall be regarded as in any way negating or affecting any right which the Bank may have under applicable law to apply

any credit balances to which the Borrower is entitled on any account of the Borrower in or towards satisfaction of any sum due from the Borrower hereunder.

13 **Remedies, Waivers, Amendments and Consents**

13.1 No failure on the part of the Bank to exercise, and no delay on its part in exercising, any right or remedy under this Facility Letter will operate as a waiver thereof, nor will any single or partial exercise of any right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies provided in this Facility Letter are cumulative and not exclusive of any rights or remedies provided by law or otherwise.

13.2 Save to the extent expressly provided to the contrary in this Facility Letter a person who is not a party to this Facility Letter may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999.

14 **Assignment and Transferability**

14.1 The Borrower may not assign, transfer or otherwise dispose of all or any part of its rights, benefits or obligations under this Facility Letter.

14.2 The Bank may at any time assign, novate or transfer all or any part of its rights, benefits and obligations under this Facility Letter or grant participations therein to any one or more banks or financial institutions and the Borrower and any other party to this Facility Letter hereby agrees to execute any documents required to enable the Bank so to do (provided that the Borrower and any such other party shall neither be required thereby to pay any greater amount to satisfy its obligations hereunder nor be responsible for any legal or statutory costs or duties arising therefrom) and the Borrower and any other party to this Facility Letter further agrees that the Bank may disclose any information to any such bank or financial institution for said purpose.

15 **Severance**

If at any time any one or more of the provisions of this Facility Letter is or becomes invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions hereof shall not thereby be affected, reduced or impaired in any way.

16 **Cash Cover**

16.1 In the event that the availability of the Facility is cancelled or terminated the Bank may, at its sole discretion, and without prejudice to the other provisions in this Facility Letter call on the Borrower to deposit with and the Borrower will pay to the Bank an amount up to the aggregate Maximum Liability of all Instruments issued under the Facility, together with any fees due. In the absence of such funds being provided the Bank shall be entitled at its discretion to obtain payment by debiting the amount to an account of the Borrower with the Bank.

16.2 If the Bank requires, at its sole discretion, any amount paid to the Bank pursuant to this Clause and/or Clause 8.5 will be charged to the Bank as security against any claims made upon the Bank under the Instruments, the Borrower undertakes to promptly and in any event within 3 Business days of receiving the Bank's preferred form of security, grant or cause to be granted to the Bank security in the Bank's preferred form over such amounts.

16.3 Any sums deposited with or charged to the Bank in terms of this Clause and Clause 8.5 shall be held in an interest-bearing account and may be applied by the Bank, at its sole discretion, against any claims made upon the Bank under any Instrument.

17 Costs and Expenses

- 17.1 The Borrower agrees that the costs and expenses, including legal fees, disbursements registration fees and value added tax thereon, incurred by the Bank in connection with the preparation, negotiation, execution and registration of this Facility Letter and any other documents required in connection with the Facility shall be for the Borrower's account and the Borrower hereby indemnifies the Bank in respect of payment thereof.
- 17.2 The Borrower further undertakes to reimburse and indemnify the Bank for any and all costs, interest, charges and expenses incurred by the Bank, as well after as before judgement, in connection with preserving, enforcing or seeking to preserve or enforce its rights in respect of this Facility Letter or any amendment thereto, or in connection with the granting of any approvals or consents hereunder or thereunder.

18 Notices

- 18.1 Each notice or other communication to be given under this Facility Letter shall be given in writing in English and, unless otherwise provided, shall be made by hand, fax or letter. For the avoidance of doubt, notices shall not be validly served by e-mail and any payment instructions may not be served by facsimile, unless the Borrower adopts the Bank's security procedures.

Any notice or other communication to be given by one party to another under this Facility Letter shall (unless one party has by no less than 5 Business Days' notice to the other party specified another address) be given:-

- 18.1.1 in the case of the Borrower to its registered office; and
- 18.1.2 in the case of the Bank to the address detailed above.
- 18.2 Any notice or other communication given by any party shall be deemed to have been received:
- 18.2.1 in the case of a notice given by hand, at the time of day of actual delivery; or
- 18.2.2 if sent by fax, with a confirmed receipt of transmission from the receiving machine, on the day on which it is transmitted; or
- 18.2.3 if posted, by 10 am on the second Business Day following the day on which it was despatched by first class mail postage prepaid,

provided that a notice given in accordance with the above but received on a day which is not a Business Day or after normal business hours in the place of receipt shall be deemed to have been received on the next Business Day.

19 Governing Law

This Facility Letter shall be governed by and construed in accordance with the laws of England and Wales.

If you are in agreement with the aforesaid provisions, please sign and return the enclosed copy of this Facility Letter, as your acceptance of the terms and conditions set out herein.

Yours faithfully

For and on behalf of
SVENSKA HANDELSBANKEN AB (publ)

Authorized Signatory

Authorized Signatory

The Borrower hereby confirms and accepts the above mentioned terms and conditions contained in this Facility Letter and the following Schedules.

The Borrower

Signed for and on behalf of the Borrower
with the full authority of the Board of Directors

Director

Director/Secretary

Date _____

Schedule 1 – Conditions Precedent

- 1 A copy of this Facility Letter signed by duly authorised officials accepting on behalf of the Borrower or the terms and conditions set out herein;
 - 2 A Bank Mandate duly completed by or on behalf of the Borrower, together with such other documents as the Bank shall require to complete its account opening formalities and to ensure compliance with money laundering obligations;
 - 3 A copy of the Borrower's Certificate of Incorporation;
 - 4 A copy certified as true and accurate by a Director or the Secretary of the Borrower of a resolution authorising the appropriate officials to act on behalf of and to bind the Borrower in the acceptance of the terms and conditions of this Facility Letter, the execution of this Facility Letter and any other necessary supporting documents ancillary thereto and negotiate any utilisation under this Facility on behalf of the Borrower.
-

Schedule 2 – Definitions and Interpretation

"Bank Rate of Exchange" means the Bank's rate of exchange for the purchase of the relevant Foreign Currency with Sterling, or as the case may be, the purchase of Sterling with the relevant Foreign Currency, on a particular day, or at a particular time, as such rate may be adjusted to reflect any minor operational or administrative processes within the Bank at the time the rate is required to be calculated.

"Business Day" means:-

- (a) for the purposes of rate fixing/drawing/payments in relation to Euros a TARGET Day; and
- (b) for all other purposes, a day (other than a Saturday or Sunday) on which banks are open for general business in London and, in the case of a Foreign Currency, in the principal financial centre for that Foreign Currency.

"Credit Substitute Bond" means a bond which in the opinion of the Bank has the characteristics of a credit substitute including but not limited to a bond related to the payment or repayment of financial indebtedness.

"Credit Substitute Guarantee" means a guarantee which in the opinion of the Bank has the characteristics of a credit substitute including but not limited to a guarantee related to the payment or repayment of financial indebtedness.

"Credit Substitute Standby Letter of Credit" means a standby letter of credit which in the opinion of the Bank has the characteristics of a credit substitute including but not limited to a standby letter of credit related to the payment or repayment of financial indebtedness.

"Currency Adjustment Limit" means the currency adjustment limit set out in Clause 1.1.

"Default Rate" means the aggregate of (i) the Bank's default interest margin in force from time to time, currently 2% per annum and (ii) the cost to the Bank of funding that sum during that period by whatever means it considers appropriate.

"Euro" and **"€"** means the single currency adopted or to be adopted by participating member states under the Treaty establishing the European Union.

"Financial Statements" means audited annual profit and loss account, balance sheet and cash flow statement for each financial year (consolidated for each financial year during which any relevant corporate body has a subsidiary) together with related directors' or members' reports (as appropriate) and auditors' reports and the notes attached thereto.

"Foreign Currency" means the foreign currencies as set out in Clause 1.1.

"Instruments" means Bonds and/or Guarantees and/or Standby Letters of Credit, and each an **"Instrument"**.

"Limit" means the amount of the Facility set out in Clause 1.1.

"Maximum Liability" means in respect of the Instruments the maximum amount that may become payable by the Bank to the beneficiary under it (whether present or future, actual or contingent) or the correspondent bank issuing such Instrument;

"Risk Fee" means the risk fee as detailed in the tariff agreed between the Borrower and the Bank from time to time.

"Sterling" and the sign "£" mean the lawful currency of the United Kingdom.

"TARGET2" means the Trans-European Automated Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007.

"TARGET Day" means any day on which TARGET2 is open for the settlement of payments in Euros.

Interpretation

Any reference in this Facility Letter to:

- (a) statutes, statutory provisions and other legislation shall include all amendments, substitutions, modifications and re-enactments for the time being in force and shall include any orders, regulations, instruments or other subordinate legislation made under the relevant legislation.
- (b) "including" shall not be construed as limiting the generality of the words preceding it.
- (c) any clause, paragraph or schedule shall be construed as a reference to the clauses in this Facility Letter, the schedules to this Facility Letter and the paragraphs in such schedules.
- (d) the singular shall include the plural and vice versa and words denoting any gender shall include all genders and if any party to this Facility Letter constitutes more than one person all covenants, conditions and obligations shall be deemed to be given by all such parties on a joint and several basis unless this Facility Letter specifically provides otherwise.
- (e) this Facility Letter and to any provisions of it or to any other document referred to in this Facility Letter shall be construed as references to it in force for the time being and as amended, varied, supplemented, restated, substituted or novated from time to time.
- (f) a person is to be construed to include references to a corporation, firm, company, partnership, joint venture, unincorporated body of persons, individual or any state or any agency of a state, whether or not a separate legal entity.
- (g) any person is to be construed to include that person's assignees or transferees or successors in title, whether direct or indirect.
- (h) any word or phrase includes all derivations thereof.
- (i) a matter being in the opinion of the Bank or at the Bank's discretion shall be in the sole opinion of the Bank taking into consideration the Bank's interests hereunder and in the case of the Bank's discretion it shall be at the Bank's sole unfettered discretion without taking into consideration other party's interests.

Clause headings are for ease of reference only and are not to affect the interpretation of this Facility Letter.

Schedule 3 – Suggested Extract for Minutes

Resolution re Facility Letter

Extract from the Minutes of a Meeting of the Directors

of Western Power Distribution (South West) plc (the 'Company')

"After due consideration of all the circumstances and on being satisfied that it is for the benefit of the Company and in the interests of the Company for the purpose of carrying on its business the Company agreed to enter into the Facility Letter in the form now produced (the "Letter").

It was resolved that the Letter be executed for and on behalf of the Company either by a Director and its Secretary, or by two Directors.

I hereby certify that the foregoing is a true extract from the Minutes of a Meeting of [a committee of] the Directors at which (all appropriate interests having been declared) a quorum entitled to vote was present duly held on the day of 20 and that a true copy of the Letter has been retained by the Company.

Secretary

Svenska Handelsbanken
 66 Queens Square

The Directors
 Western Power Distribution (South West) plc
 Avonbank
 Feeder Road
 Bristol
 BS2 0TB

Date: 28th February 2018

Dear Sirs

In accordance with arrangements recently agreed between us, we hereby set out in this letter (the "**Facility Letter**") the terms and conditions upon which we, Svenska Handelsbanken AB (publ) (the "**Bank**"), are prepared to make available an uncommitted money market facility (the "**Facility**") to you, Western Power Distribution (South West) plc, Company Number 2366894 (the "**Borrower**")

This Facility Letter is open for acceptance within 30 days of the date hereof or such later date as the Bank shall agree after which it shall expire.

This Facility Letter supersedes all prior agreements, arrangements or correspondence between the Bank and the Borrower in relation to the Facility.

The principal terms on which the Facility is made available are set out in Clause 1.1, subject to the terms and conditions contained in the remainder of this Facility Letter.

1.1 Outline Terms

- **Amount & Type of Facility:** £75,000,000 (seventy five million pounds sterling) money market facility.
- **Bank's Fees:**
 - Arrangement Fee £15,000 payable on signing this Facility Letter.
 - Annual Fee £11,250 payable yearly in advance with effect from 1st March 2018
 - Breakage Fee £300 payable on the date a Drawing or any part thereof is repaid or prepaid other than on the relevant Maturity Date.
 - Break Costs (if applicable).
- **Review Date:** On or around 28th February annually
- **Specified Purpose:** General business purposes.

1.2 Definitions and Interpretation

Unless defined elsewhere the definitions which shall apply to the Facility Letter are contained in Schedule 2.

Svenska Handelsbanken AB (publ)
 66 Queens Square

Telephone 0117 302 0080

Fax 0117 302 0077

Bristol
BS1 4JP

www.handelsbanken.co.uk/bristolqueensquare

SWIFT HANDGB22

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The Facility

The Borrower may only use the Facility for the Specified Purpose and furthermore undertakes not to use the Facility for any purpose or in any manner that would result in a breach by it, or any other person, of any provision of the Bribery Act 2010.

3 Conditions Precedent

- 3.1 The Facility shall be available for use by the Borrower only when the Bank (i) shall have received, to its satisfaction as to their form and substance, the documents and evidence set out in Schedule 1 and (ii) is satisfied that the other conditions detailed in Schedule 1 have been satisfied.
- 3.2 The Conditions Precedent set out in Schedule 1 are for the sole benefit of the Bank, and the Bank may in its sole and absolute discretion make the Facility, or a part thereof, available notwithstanding that one or more of such conditions have not been fulfilled on terms that such condition or conditions shall be fulfilled within such period or periods thereafter as the Bank shall determine unless the Bank shall otherwise agree to waive such condition or conditions in its sole and absolute discretion.

4 Utilisation, Availability and Termination

- 4.1 Utilisation of the Facility ("**Facility Utilisation**") will be calculated as the aggregate value of outstanding Drawings.
- 4.2 Facility Utilisation at any time shall not exceed the Limit and the Bank is not obliged to allow or continue to allow any utilisation in excess of the Limit.
- 4.3 The Facility is uncommitted and shall remain available to the Borrower until further notice but shall be subject to cancellation at any time by either the Bank or the Borrower giving written notice to the other. In the event of such cancellation no further Drawings shall be made available and the Bank will be entitled to require the Borrower to immediately repay all Drawings in accordance with the provisions of Clause 5.5.
- 4.4 The Bank shall review the Facility on each Review Date and may contact you to discuss your future requirements. Whenever we review the Facility, we may charge you a renewal fee.
- 4.5 All sums outstanding under the Facility together with interest thereon, and any fees, costs, charges and expenses payable hereunder shall be repayable upon demand at all times.

5 Drawings

- 5.1 Borrowings by way of drawings shall be permitted at the Bank's discretion (together the "**Drawings**" each a "**Drawing**").
- 5.2 Each Drawing shall be for an amount, a period and at an interest rate, all to be mutually agreed at the time of each such Drawing, such period to expire no later than the next Quarter Day unless otherwise agreed by the Bank.
- 5.3 Interest on Drawings shall be payable by the Borrower in full in immediately available funds, on the relevant Maturity Date and on any date that a Drawing is renewed for a further period pursuant to Clause 5.4.
- 5.4 Each Drawing shall be repaid in full by the Borrower on the relevant Maturity Date unless the Bank, in its sole discretion, shall agree to renew any such Drawing for a further period in which case the Maturity Date for such Drawing shall be extended accordingly.

- 5.5 Notwithstanding any other term of this Facility Letter each Drawing together with interest thereon, and any fees, costs, charges and expenses payable hereunder shall be repayable upon demand and in the event that the Facility is cancelled or demand is made by the Bank, the Bank shall be entitled at the cost of the Borrower to break any interest period that may be applicable to a Drawing and the Borrower shall pay to the Bank the Breakage Fee and all Break Costs arising as a result thereof together with accrued interest. In the event that the Bank shall exercise such right all Drawings outstanding shall thereafter be fixed for such interest periods as shall be determined by the Bank in its sole and absolute discretion.
- 5.6 If there is a repayment, prepayment or recovery of all or any part of a Drawing other than on the relevant Maturity Date, then the Borrower will pay to the Bank on demand an amount equal to the Break Costs together with the Breakage Fee and the Borrower indemnifies the Bank against any other costs, liabilities or expenses incurred by the Bank in connection with that early repayment, prepayment or recovery.
- 5.7 Any notice of prepayment under this Facility Letter shall be irrevocable and the provisions of this Clause 5 shall apply to any prepayment.
- 5.8 If the prepayment sum is received by the Bank after 10 am then the Bank may treat such prepayment as if it had been received on the next Business Day. Any prepayment must be accompanied by any Breakage Fee and all Break Costs arising as a result thereof together with accrued interest.

6 **Fees**

- 6.1 In consideration of the Bank making the Facility available hereunder the Borrower shall pay to the Bank, the Bank's Fees which if not previously paid shall be deducted from any Drawing made hereunder. Any fees as set out in Clause 1.1 not due on first utilisation shall be debited to the Borrower's account and be payable in advance at the time or times and in the manner set out in Clause 1.1.
- 6.2 In the event that the level of administration undertaken by the Bank in connection with the operation and monitoring of the Facility shall in the opinion of the Bank have increased or be likely to increase from that envisaged by the Bank when the Facility was originally agreed then the Bank shall have the right to charge the Borrower an Administration Fee.

Increased Costs and Default Interest

- 7.1 The Borrower shall, within three Business Days of a demand by the Bank, pay the Bank the amount of any Increased Costs incurred by the Bank as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law, regulation or directive (whether or not having the force of law) or (ii) compliance with any law, regulation or directive (whether or not having the force of law) made after the date of this Facility Letter.
- 7.2 In this Facility Letter "**Increased Costs**" means:
- 7.2.1 a reduction in the rate of return from the Facility or on the Bank's overall capital;
 - 7.2.2 an additional or increased cost; or
 - 7.2.3 a reduction of any amount due and payable under this Facility Letter,
- which is incurred or suffered by the Bank to the extent that it is attributable to the Bank having entered into this Facility Letter or funding or performing its obligations under this Facility Letter.
- 7.3 The Bank prior to making a claim pursuant to Clause 7.1 above shall notify the Borrower of the event giving rise to the claim and shall, as soon as practicable after a demand by the Borrower, provide a certificate confirming the amount of its Increased Costs.

7.4 If the Borrower shall fail to pay any sum due hereunder or under the judgement of any court in connection herewith on the due date therefor, then as a separate obligation the Borrower shall pay to the Bank interest at the Default Rate on any such sum due to the Bank up to the date on which such sum is repaid and any other amounts outstanding under this Facility Letter have been paid in full. Interest shall be payable at the rate both before and after demand, court decree or judgment on such dates advised by the Bank to the Borrower any such interest which is not paid when due shall be added to the overdue sum and itself bear interest accordingly.

7.5 The Bank's certificate as to the amounts due pursuant to this Clause 7 shall be final and conclusive, save for manifest error.

8 **Financial Information**

The Borrower shall forthwith provide to the Bank such financial information as the Bank may request from time to time including, but not limited to the Financial Statements of the Borrower within 180 days of the end of each financial year.

9 **Payments, Calculations and Tax Indemnity**

9.1 All interest shall accrue from day to day and be calculated on the basis of the actual number of days elapsed within a year of 365 days.

9.2 All sums payable by the Borrower to the Bank shall be paid without deduction for or on account of any set-off or counter-claim and free and clear of any deduction or withholding of any nature (including taxation) unless such a deduction or withholding is required by law.

9.3 If any amount is required by law to be deducted or withheld from any sum payable hereunder then the Borrower shall pay such an additional amount as will ensure that, after the making of such deduction or withholding, the Bank shall receive a net sum equal to the sums which the Bank would have received had no such deduction or withholding been required to be made.

9.4 The Borrower shall (within three Business Days of demand by the Bank) pay to the Bank an amount equal to the loss, liability or cost which the Bank determines will be or has been (directly or indirectly) suffered for or on account of Tax by the Bank in respect of the Facility Letter.

9.5 Clause 9.4 above shall not apply:

9.5.1 with respect to any Tax assessed on the Bank under the law of the jurisdiction in which the Bank is incorporated or, if different, the jurisdiction (or jurisdictions) in which the Bank is treated as resident for tax purposes, if that Tax is imposed on or calculated by reference to the net income received or receivable (but not any sum deemed to be received or receivable) by the Bank; or

9.5.2 to the extent a loss, liability or cost is compensated for by an increased payment under Clause 9.3.

9.6 If the Bank makes (or intends to make) a claim under Clause 9.4 above, it shall notify the Borrower as soon as is reasonably practicable of the event which has caused (or will cause) that claim, however, the Bank's entitlement to exercise its rights under Clause 9.4 above is not conditional on such notification being made in accordance with this Clause 9.6.

9.7 For the purposes of Clauses 9.4 and 9.5:

"Tax" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

10 **Security**

The Facility will be secured by any security which the Bank may in the future obtain.

11 **Set-Off**

- 11.1 In addition to any other rights to which it may be entitled the Bank may retain, set off or appropriate any credit balances in name of the Borrower (whether current or not yet due) against the Borrower's obligations to the Bank under this Facility Letter. The Bank may exercise any of these rights without prior notice both before and after demand and in so doing may convert to sterling at the Bank Rate of Exchange any balance which is in a currency other than sterling.
- 11.2 Nothing expressed or implied in this Facility Letter or any other document in connection herewith shall be regarded as in any way negating or affecting any right which the Bank may have under applicable law to apply any credit balances to which the Borrower is entitled on any account of the Borrower in or towards satisfaction of any sum due from the Borrower hereunder.

12 **Severance**

If at any time any one or more of the provisions of this Facility Letter is or becomes invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions hereof shall not thereby be affected, reduced or impaired in any way.

13 **Remedies, Waivers, Amendments and Consents**

- 13.1 No failure on the part of the Bank to exercise, and no delay on its part in exercising, any right or remedy under this Facility Letter will operate as a waiver thereof, nor will any single or partial exercise of any right or remedy preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies provided in this Facility Letter are cumulative and not exclusive of any rights or remedies provided by law or otherwise.
- 13.2 Save to the extent expressly provided to the contrary in this Facility Letter a person who is not a party to this Facility Letter may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999.

14 **Assignment and Transferability**

- 14.1 The Borrower may not assign, transfer or otherwise dispose of all or any part of its rights, benefits or obligations under this Facility Letter.
- 14.2 Subject to clause 14.3 below, the Bank may, with the prior written consent of the Borrower (such consent not to be unreasonably withheld or delayed) at any time and its own cost assign, novate or transfer all or any part of its rights, benefits and obligations under this Facility Letter or grant participations therein to any one or more banks or financial institutions and the Borrower and any other party to this Facility Letter hereby agree to execute any documents required to enable the Bank so to do (provided that the Borrower and any such other party shall neither be required thereby to pay any greater amount to satisfy its obligations hereunder nor be responsible for any legal or statutory costs or duties arising therefrom) and the Borrower and any other party to this Facility Letter further agrees that the Bank may disclose any information to any such bank or financial institution for said purpose.
- 14.3 The consent of the Borrower will be deemed to have been given if:
- 14.3.1 the transfer is to an Affiliate of the Bank;
 - 14.3.2 a breach of the Borrower's obligations has occurred and is continuing; or

14.3.3 within 10 Business Days of receipt by the Borrower of a written application for consent, it has not been expressly refused, provided, in each case, that at the time of the proposed transfer no deduction or withholding would be required by law in respect of any payment to the transferee at such time to the extent that no deduction or withholding would have been required in respect of a payment to the Bank.

15 Costs and Expenses

- 15.1 The Borrower agrees that the costs and expenses, including legal fees, disbursements registration fees and value added tax thereon, incurred by the Bank in connection with the preparation, negotiation, execution and registration of this Facility Letter, and any other documents required in connection with the Facility shall be for the Borrower's account and the Borrower hereby indemnifies the Bank in respect of payment thereof.
- 15.2 The Borrower further undertakes to reimburse and indemnify the Bank for any and all costs, interest, charges and expenses incurred by the Bank, as well after as before judgement, in connection with preserving, enforcing or seeking to preserve or enforce its rights in respect of this Facility Letter or any amendment thereto, or in connection with the granting of any approvals or consents hereunder.

16 Notices

- 16.1 Each notice or other communication to be given under this Facility Letter shall be given in writing in English and, unless otherwise provided, shall be made by hand, fax or letter. For the avoidance of doubt, notices shall not be validly served by e-mail.

Any notice or other communication to be given by one party to another under this Facility Letter shall (unless one party has by no less than 5 Business Days' notice to the other party specified another address) and shall be given:-

16.1.1 in the case of the Borrower to its registered office; and

16.1.2 in the case of the Bank to the address detailed above.

- 16.2 Any notice or other communication given by any party shall be deemed to have been received:

16.2.1 in the case of a notice given by hand, at the time of day of actual delivery; or

16.2.2 if sent by fax, with a confirmed receipt of transmission from the receiving machine, on the day on which it is transmitted; or

16.2.3 if posted, by 10 am on the second Business Day following the day on which it was despatched by first class mail postage prepaid,

provided that a notice given in accordance with the above but received on a day which is not a Business Day or after normal business hours in the place of receipt shall be deemed to have been received on the next Business Day.

17 Governing Law

This Facility Letter shall be governed by and construed in accordance with the laws of England and Wales.

If you are in agreement with the aforesaid provisions, please sign and return the enclosed copy of this Facility Letter, as your acceptance of the terms and conditions set out herein.

Yours faithfully
For and on behalf of
SVENSKA HANDELSBANKEN AB (publ)

Authorised Signatory

Authorised Signatory

The Borrower hereby confirms and accepts the above mentioned terms and conditions contained in this Facility Letter and the following Schedules.

Signed for and on behalf of the Borrower

Authorised signatory

Authorised signatory

Date

Schedule 1 – Conditions Precedent

- 1 A copy of this Facility Letter signed by duly authorised officials accepting on behalf of the Borrower or the terms and conditions set out herein;
 - 2 A Bank Mandate duly completed by or on behalf of the Borrower, together with such other documents as the Bank shall require to complete its account opening formalities and to ensure compliance with money laundering obligations;
 - 3 Such form of mandate or authority as the officers of the Borrower may be empowered to issue to bankers concerning the negotiation of any money market utilisation under this Facility Letter on behalf of the Borrower and to sign and/or endorse any documents required under or in connection with this Facility Letter on behalf of the Borrower;
 - 4 A copy of the Borrower's Certificate of Incorporation;
 - 5 A copy certified as true and accurate by a Director or the Secretary of the Borrower of a resolution authorising the appropriate officials to act on behalf of and to bind the Borrower in the acceptance of the terms and conditions of this Facility Letter and the execution of this Facility Letter any other necessary supporting documents ancillary thereto; and
 - 6 The Bank's Fees then due.
-

Schedule 2 – Definitions and Interpretation

"Administration Fee" means an administration fee of such amount or administration fees of such amounts as shall be determined by the Bank in its absolute discretion from time to time to fully compensate the Bank for the additional costs incurred or likely to be incurred by it in the operation and monitoring of the Facility. Such fee or fees will be payable on the Bank's first demand.

"Affiliate" means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

"Bank Rate of Exchange" means the Bank's rate of exchange for the purchase of the relevant foreign currency with Sterling, or as the case may be, the purchase of Sterling with the relevant foreign currency, calculated in accordance with the Bank's operational and administrative processes at the time the rate is required to be calculated.

"Bank's Fees" means the Bank's fees set out in Clause 1.1.

"Break Costs" means the amount (if any) by which:

- (a) the interest which the Bank should have received for the period from the date of receipt of all or any part of a Drawing or any unpaid sum to the last day of the current fixed rate period in respect of that Drawing or unpaid sum, had the principal amount or unpaid sum received been paid on the Maturity Date;

exceeds:

- (b) the amount which that Bank would be able to obtain by placing an amount equal to the principal amount or unpaid sum received by it on deposit with a leading bank in the relevant interbank market for a period starting on the Business Day following receipt or recovery and ending on the relevant Maturity Date

and the provisions of this definition shall apply to each successive interest period for any unpaid amount or unpaid Drawing.

"Breakage Fee" means the Bank's breakage administration fee detailed in Clause 1.1.

"Business Day" means a day (other than a Saturday or Sunday) when the branch of the Bank at which the Borrower's account is located is open for business.

"Default Rate" means the aggregate of (i) the Bank's default interest margin in force from time to time, currently 2% per annum and (ii) the cost to the Bank of funding that sum during that period by whatever means it considers appropriate.

"Financial Statements" means audited annual profit and loss account, balance sheet and cash flow statement for each financial year (consolidated for each financial year during which any relevant corporate body has a subsidiary) together with related directors' or members' reports (as appropriate) and auditors' reports and the notes attached thereto.

"Holding Company" means, in relation to a person, any other person in respect of which it is a Subsidiary.

"Limit" means the amount of the Facility set out in Clause 1.1.

"Maturity Date" means the agreed date for repayment of each Drawing.

"Quarter Day" means the Business Day falling on, or, if such day is not a Business Day the Business Day immediately before, each of 31st March, 30th June, 30th September or 31st December each year or any other quarter day that the Bank may advise the Borrower in replacement therefor from time to time as a consequence of a change in the Bank's internal accounting policies.

"Sterling" and the sign "£" mean the lawful currency of the United Kingdom.

"subsidiary" means a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006.

Interpretation

Any reference in this Facility Letter to:

- (a) statutes, statutory provisions and other legislation shall include all amendments, substitutions, modifications and re-enactments for the time being in force and shall include any orders, regulations, instruments or other subordinate legislation made under the relevant legislation.
- (b) "**including**" shall not be construed as limiting the generality of the words preceding it;
- (c) any clause, paragraph or schedule shall be construed as a reference to the clauses in this Facility Letter, the schedules to this Facility Letter and the paragraphs in such schedules;
- (d) the singular shall include the plural and vice versa and words denoting any gender shall include all genders and if any party to this Facility Letter constitutes more than one person all covenants, conditions and obligations shall be deemed to be given by all such parties on a joint and several basis unless this Facility Letter specifically provides otherwise;
- (e) this Facility Letter and to any provisions of it or to any other document referred to in this Facility Letter shall be construed as references to it in force for the time being and as amended, varied, supplemented, restated, substituted or novated from time to time;
- (f) a person is to be construed to include references to a corporation, firm, company, partnership, joint venture, unincorporated body of persons, individual or any state or any agency of a state, whether or not a separate legal entity;
- (g) any person is to be construed to include that person's assignees or transferees or successors in title, whether direct or indirect;
- (h) any word or phrase includes all derivations thereof;
- (i) a matter being in the opinion of the Bank or at the Bank's discretion shall be in the sole opinion of the Bank taking into consideration the Bank's interests hereunder and in the case of the Bank's discretion it shall be at the Bank's sole unfettered discretion without taking into consideration other party's interests.

Clause headings are for ease of reference only and are not to affect the interpretation of this Facility Letter.

Resolution re Facility Letter

Extract from the Minutes of a Meeting of the Directors

of Western Power Distribution (South West) plc (the 'Company')

"After due consideration of all the circumstances and on being satisfied that it is for the benefit of the Company and in the interests of the Company for the purpose of carrying on its business the Company agreed to enter into the Facility Letter in the form now produced (the "Letter").

It was resolved that the Letter be executed for and on behalf of the Company either by a Director and its Secretary, or by two Directors.

I hereby certify that the foregoing is a true extract from the Minutes of a Meeting of the Directors at which (all appropriate interests having been declared) a quorum entitled to vote was present duly held on the day of 2018 and that a true copy of the Letter has been retained by the Company.

Secretary

AMENDMENT NO. 6

TO

PPL SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

WHEREAS, PPL Services Corporation ("PPL") adopted the PPL Supplemental Executive Retirement Plan (the "Plan"), effective July 1, 2000, for certain of its employees; and

WHEREAS, the Plan was amended and restated effective July 1, 2003, and subsequently amended by Amendment No. 1, 2, 3, 4 and 5; and

WHEREAS, PPL desires to further amend the Plan;

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective December 31, 2017, the following sections of Article 2 are amended to read as follows:

ARTICLE II **DEFINITIONS**

- (h) **"CLC"** shall mean the Corporate Leadership Council of PPL Corporation.
 - (i) **"Early Retirement Reduction Factor"** means the percentage that appears adjacent to the Participant's age below determined under the appropriate column.
 - (1) Column (1) shall apply to any Retiree unless Column (3) applies.
 - (2) Column (2) shall apply to any Terminated Vested Participant unless Column (3) applies.
 - (3) Column (3) shall apply only to the Chief Executive Officer of PPL Corporation.
-

Percentage of Benefit Received

Age When Benefits Start	(1)	(2)	(3)
	Retiree	Terminated Vested	CEO Retiree
62	100	100	100
61	100	100	95
60	100	100	90
59	95	90	85
58	90	80	80
57	85	70	75
56	80	60	70
55	75	50	65
54	70	N/A	N/A
53	65	N/A	N/A
52	60	N/A	N/A
51	55	N/A	N/A
50	50	N/A	N/A
49 or younger	N/A	N/A	N/A

(j) **"Good Reason"** shall mean "Good Reason" or such similar concept as defined in any employment, severance, or similar agreement then in effect between the Participant and any of PPL or an Affiliated Company, or, if no such agreement containing a definition of "Good Reason" is then in effect or if such term is not defined therein, "Good Reason" shall mean without the Participant's consent, (i) a change caused by PPL or an Affiliated Company in the Participant's duties and responsibilities which is materially inconsistent with the Participant's position at the applicable entity that is a member of the Affiliated Companies, (ii) a material reduction in the Participant's annual base salary, annual incentive compensation opportunity or other employee benefits (excluding any such reduction that is part of a plan to reduce annual base salaries, annual incentive compensation opportunities or other employee benefits of comparably situated employees of any entity that is a member of the Affiliated Companies generally), or (iii) a relocation of the Participant's current principle place of employment; provided that, notwithstanding anything to the contrary in the foregoing, the Participant shall only have "Good Reason" to terminate employment following the applicable entity's failure to remedy the act which is alleged to constitute "Good Reason" within thirty (30) days following such entity's receipt of written notice from the Participant specifying such act, so long as such notice is provided within sixty (60) days after such event has first occurred.

(k) **"Participant"** means

- (1) any elected officer or other key employee of PPL or of a Participating Company who is hired prior to January 1, 2012, is designated as eligible in a resolution adopted by the board of directors of such Participating Company, and is approved for participation in this Plan by the CLC.
 - (2) any individual formerly described in Paragraph (1) who has not yet had a Termination of Employment, or any individual formerly described in Paragraph (1) who has had a Termination of Employment and is entitled to receive benefits under Article 3 of this Plan. All Participants of this Plan are listed in Appendix A.
- (l) **"Participating Company"** means PPL Services Corporation, PPL Electric Utilities Corporation (prior to February 14, 2000, PP&L, Inc.), PPL EnergyPlus, LLC (prior to February 14, 2000, PP&L EnergyPlus Co., LLC), PPL Global, LLC, PPL Montana, LLC and each other Affiliated Company that is designated by the CLC to adopt this Plan by action of its board of directors or managers.
- (m) **"Plan"** means this Supplemental Executive Retirement Plan, as amended from time to time.
- (n) **"PPL Corporation"** means PPL Corporation (prior to February 14, 2000, PP&L Resources, Inc.).
- (o) **"Retiree"** means a Participant except the Chief Executive Officer of PPL Corporation who has a Termination of Employment after:
 - (1) attaining age 55 and completing at least 10 Years of Service, or
 - (2) attaining age 60.For the Chief Executive Officer of PPL Corporation, "Retiree" means the Participant has a Termination of Employment after attaining age 55 and completing at least 10 years of Service or attaining age 62.
- (p) **"Retirement Plan"** means the PPL Retirement Plan, as amended from time to time.
- (q) **"Section 409A"** means Section 409A of the Internal Revenue Code of 1986, as amended, and the final Treasury Regulations issued thereunder.
- (r) **"Supplemental Final Average Earnings"** means the following:
-

- (1) Supplemental Final Average Earnings means twelve times the average of a Participant's "compensation" as defined in Paragraphs (A) through (B) below, from PPL and/or an Affiliated Company, for the 60 highest full months in the final 120 (or fewer) full consecutive months during which he is employed by PPL and/or an Affiliated Company. For this purpose, non-consecutive months interrupted by periods in which the Participant receives no "compensation" shall be treated as consecutive. For purposes of this Section, "compensation" shall include the following:
- (A) the Participant's base salary from PPL and/or any Affiliated Company prior to any deferrals to the Officers Deferred Compensation Plan or any other nonqualified deferred compensation plan of an Affiliated Company or any Internal Revenue Code section 401(k) plan by which Participant is covered, plus
 - (B) the value of any cash grants attributable to any month used in the average, awarded to Participant pursuant to the executive incentive awards program initially approved by the Board on October 25, 1989 or any similar program maintained by an Affiliated Company. For the final calendar year of employment, "Compensation" shall include an amount equal to the value of any cash grant that would have been paid for service in the final calendar year of employment, as if 100% of target goals were achieved, but prorated by multiplying by a fraction equal to the number of full calendar months of service completed divided by 12.
- (2) For the purposes of determining the Participant's "compensation" under Subsection (1) of this definition, the CLC will determine the amount of any cash grant awarded to the Participant under any incentive awards program, and prorate such amount over the year for which the award was granted. Notwithstanding the foregoing, if a Participant transfers from a Participating Company to an Affiliated Company that is not a Participating Company after becoming a Participant, earnings with the Affiliated Company after the date of such transfer (or for the duration of each such transfer if the Participant transfers more than once) shall not count in the Participant's Supplemental Final Average Earnings.
- (s) **"Terminated Vested Participant"** means a Participant except the Chief Executive Officer of PPL Corporation:
- (1) who has a Termination of Employment after attaining age 50 but not age 55, and completing at least 10 Years of Service.
-

(t) **“Termination of Employment”** means the Participant’s separation from service (as such term is defined in Section 409A) from PPL and all Affiliated Companies.

Except as provided for in this Amendment No. 6, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 6 is executed this ____ day of _____, 2018.

PPL SERVICES CORPORATION

By:

Joanne H. Raphael
Senior Vice President, General Counsel
and Corporate Secretary

iManage/SERP Document (1989-00735)/Plan Documents/Amendments

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Three Months Ended March 31,		Years Ended December 31,			
	2018	2017	2016	2015 (a)	2014 (a)	2013 (a)
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 569	\$ 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>569</u>	<u>1,913</u>	<u>2,549</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>
Total fixed charges as below	<u>245</u>	<u>927</u>	<u>917</u>	<u>1,054</u>	<u>1,095</u>	<u>1,096</u>
Less:						
Capitalized interest	1	4	4	11	11	11
Interest expense and fixed charges related to discontinued operations	—	—	—	150	186	235
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>244</u>	<u>923</u>	<u>913</u>	<u>893</u>	<u>898</u>	<u>850</u>
Total earnings	<u>\$ 813</u>	<u>\$ 2,836</u>	<u>\$ 3,462</u>	<u>\$ 2,960</u>	<u>\$ 3,027</u>	<u>\$ 2,578</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 242	\$ 912	\$ 900	\$ 1,038	\$ 1,073	\$ 1,058
Estimated interest component of operating rentals	3	15	17	16	22	38
Total fixed charges (c)	<u>\$ 245</u>	<u>\$ 927</u>	<u>\$ 917</u>	<u>\$ 1,054</u>	<u>\$ 1,095</u>	<u>\$ 1,096</u>
Ratio of earnings to fixed charges (d)	<u>3.3</u>	<u>3.1</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>

(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)*

	Three Months	Years Ended December 31,				
	Ended March 31,	2017	2016	2015	2014	2013
	2018					
Earnings, as defined:						
Income Before Income Taxes	\$ 197	\$ 575	\$ 552	\$ 416	\$ 423	\$ 317
Total fixed charges as below	40	153	141	139	131	117
Total earnings	\$ 237	\$ 728	\$ 693	\$ 555	\$ 554	\$ 434
Fixed charges, as defined:						
Interest charges (a)	\$ 39	\$ 149	\$ 137	\$ 135	\$ 127	\$ 113
Estimated interest component of operating rentals	1	4	4	4	4	4
Total fixed charges (b)	\$ 40	\$ 153	\$ 141	\$ 139	\$ 131	\$ 117
Ratio of earnings to fixed charges (c)	5.9	4.8	4.9	4.0	4.2	3.7

(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&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Three Months Ended March 31,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 181	\$ 691	\$ 686	\$ 603	\$ 553	\$ 551
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	(1)	(1)
	181	692	685	602	552	550
Total fixed charges as below	57	224	223	189	173	151
Total earnings	\$ 238	\$ 916	\$ 908	\$ 791	\$ 725	\$ 701
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 55	\$ 215	\$ 214	\$ 181	\$ 167	\$ 145
Estimated interest component of operating rentals	2	9	9	8	6	6
Total fixed charges	\$ 57	\$ 224	\$ 223	\$ 189	\$ 173	\$ 151
Ratio of earnings to fixed charges	4.2	4.1	4.1	4.2	4.2	4.6

- (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)

	Three Months Ended March 31,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 93	\$ 344	\$ 329	\$ 299	\$ 272	\$ 257
Total fixed charges as below	19	76	76	61	51	36
Total earnings	\$ 112	\$ 420	\$ 405	\$ 360	\$ 323	\$ 293
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 18	\$ 71	\$ 71	\$ 57	\$ 49	\$ 34
Estimated interest component of operating rentals	1	5	5	4	2	2
Total fixed charges	\$ 19	\$ 76	\$ 76	\$ 61	\$ 51	\$ 36
Ratio of earnings to fixed charges	5.9	5.5	5.3	5.9	6.3	8.1

(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)

	Three Months Ended March 31, 2018	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 111	\$ 418	\$ 428	\$ 374	\$ 355	\$ 360
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	(1)	(1)
	<u>111</u>	<u>419</u>	<u>427</u>	<u>373</u>	<u>354</u>	<u>359</u>
Total fixed charges as below	<u>26</u>	<u>100</u>	<u>100</u>	<u>86</u>	<u>80</u>	<u>73</u>
Total earnings	<u>\$ 137</u>	<u>\$ 519</u>	<u>\$ 527</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 25	\$ 96	\$ 96	\$ 82	\$ 77	\$ 70
Estimated interest component of operating rentals	1	4	4	4	3	3
Total fixed charges	<u>\$ 26</u>	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>
Ratio of earnings to fixed charges	<u>5.3</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

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(c)) 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: May 3, 2018

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

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: May 3, 2018

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

CERTIFICATION

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: May 3, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

CERTIFICATION

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: May 3, 2018

/s/ Marlene C. Beers

Marlene C. Beers

Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

CERTIFICATION

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: May 3, 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

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: May 3, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

CERTIFICATION

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: May 3, 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

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: May 3, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

CERTIFICATION

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: May 3, 2018

/s/ Paul W. Thompson

Paul W. Thompson
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

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: May 3, 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 MARCH 31, 2018

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended March 31, 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: May 3, 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 MARCH 31, 2018

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended March 31, 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: May 3, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

/s/ Marlene C. Beers

Marlene C. Beers

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 MARCH 31, 2018

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended March 31, 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: May 3, 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 MARCH 31, 2018

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended March 31, 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: May 3, 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 MARCH 31, 2018

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended March 31, 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: May 3, 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.

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FORM 10-Q

LG&E & KU Energy LLC - N/A

Filed: August 07, 2018 (period: June 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 June 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	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
33-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

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

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

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

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

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

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

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

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

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

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

PPL Corporation	Common stock, \$0.01 par value, 699,570,660 shares outstanding at July 31, 2018.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 31, 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 July 31, 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 July 31, 2018.

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

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**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 JUNE 30, 2018

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global. 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.

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LKE - 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.

TM 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.

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.

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

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NO - 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.

BP - 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.

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

kWh - kilowatt hour, basic unit of electrical energy.

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.

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PR - 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.

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.

P&E - property, plant and equipment.

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

RAV - regulatory asset value. This term, used within the U.K. regulatory environment, is also commonly known as RAB or regulatory asset base. RAV is based on historical investment costs at time of privatization, plus subsequent allowed additions less annual regulatory depreciation, and represents the value on which DNOs earn a return in accordance with the regulatory cost of capital. RAV is indexed to Retail Price Index (RPI) in order to allow for the effects of inflation. RAV additions 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.

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

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

RPI - retail price index, is a measure of inflation in the United Kingdom published monthly by the Office for National Statistics.

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.

TJA - 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.

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Forward-looking Information

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

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Several 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

EM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues	\$ 1,848	\$ 1,725	\$ 3,974	\$ 3,676
Operating Expenses				
Operation				
Fuel	189	183	403	374
Energy purchases	148	136	389	351
Other operation and maintenance	506	432	974	902
Depreciation	273	246	542	488
Taxes, other than income	74	70	157	145
Total Operating Expenses	1,190	1,067	2,465	2,260
Operating Income	658	658	1,509	1,416
Other Income (Expense) - net	234	(68)	191	(77)
Interest Expense	235	222	474	439
Income Before Income Taxes	657	368	1,226	900
Income Taxes	142	76	259	205
Net Income	\$ 515	\$ 292	\$ 967	\$ 695
Earnings Per Share of Common Stock:				
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.74	\$ 0.43	\$ 1.39	\$ 1.02
Diluted	\$ 0.73	\$ 0.43	\$ 1.38	\$ 1.01
Dividends Declared Per Share of Common Stock	\$ 0.41	\$ 0.395	\$ 0.82	\$ 0.79
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	699,006	683,841	696,772	682,370
Diluted	700,976	686,351	698,161	684,725

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 515	\$ 292	\$ 967	\$ 695
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of (\$2), \$0, (\$2), (\$1)	(250)	231	(134)	207
Qualifying derivatives, net of tax of (\$4), \$5, \$0, \$7	19	(24)	(1)	(30)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	(1)	—	(1)	—
Net actuarial gain (loss), net of tax of \$0, \$7, \$0, \$7	—	(11)	(1)	(11)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of \$3, (\$7), \$1, (\$7)	(19)	25	(7)	24
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	1	—	1
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	1	1	1	1
Net actuarial (gain) loss, net of tax of (\$9), (\$9), (\$18), (\$18)	34	31	70	63
Total other comprehensive income (loss)	(216)	254	(73)	255
Comprehensive income	\$ 299	\$ 546	\$ 894	\$ 950

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 967	\$ 695
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	542	488
Amortization	34	45
Defined benefit plans - (income)	(101)	(45)
Deferred income taxes and investment tax credits	171	201
Unrealized (gains) losses on derivatives, and other hedging activities	(91)	135
Stock-based compensation expense	16	22
Other	(9)	(5)
Change in current assets and current liabilities		
Accounts receivable	46	26
Accounts payable	(90)	(92)
Unbilled revenues	91	70
Fuel, materials and supplies	32	42
Prepayments	(60)	(66)
Taxes payable	28	(27)
Regulatory assets and liabilities, net	42	(19)
Accrued interest	(79)	(77)
Other current liabilities	(47)	(52)
Other	(16)	13
Other operating activities		
Defined benefit plans - funding	(206)	(552)
Proceeds from transfer of excess benefit plan funds	65	—
Other assets	(67)	(1)
Other liabilities	57	(11)
Net cash provided by operating activities	<u>1,325</u>	<u>790</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(1,527)	(1,373)
Purchase of available-for-sale securities	(65)	—
Other investing activities	(57)	(12)
Net cash used in investing activities	<u>(1,649)</u>	<u>(1,385)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	584	594
Retirement of long-term debt	(250)	(60)
Issuance of common stock	147	177
Payment of common stock dividends	(558)	(529)
Net increase in short-term debt	788	554
Other financing activities	(16)	(25)
Net cash provided by financing activities	<u>695</u>	<u>711</u>
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	<u>(7)</u>	<u>7</u>
Net Increase in Cash, Cash Equivalents and Restricted Cash	<u>364</u>	<u>123</u>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	511	367
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 875</u>	<u>\$ 490</u>

Supplemental Disclosures of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$ 329	\$ 284
Accrued expenditures for intangible assets at June 30,	\$ 59	\$ 56

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
PL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 852	\$ 485
Accounts receivable (less reserve: 2018, \$55; 2017, \$51)		
Customer	675	681
Other	66	100
Unbilled revenues	453	543
Fuel, materials and supplies	288	320
Prepayments	126	66
Price risk management assets	78	49
Other current assets	62	50
Total Current Assets	2,600	2,294
Property, Plant and Equipment		
Regulated utility plant	38,999	38,228
Less: accumulated depreciation - regulated utility plant	7,083	6,785
Regulated utility plant, net	31,916	31,443
Non-regulated property, plant and equipment	370	384
Less: accumulated depreciation - non-regulated property, plant and equipment	108	110
Non-regulated property, plant and equipment, net	262	274
Construction work in progress	1,645	1,375
Property, Plant and Equipment, net	33,823	33,092
Other Noncurrent Assets		
Regulatory assets	1,530	1,504
Goodwill	3,308	3,258
Other intangibles	694	697
Pension benefit asset	498	284
Price risk management assets	185	215
Other noncurrent assets	192	135
Total Other Noncurrent Assets	6,407	6,093
Total Assets	\$ 42,830	\$ 41,479

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
PL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,864	\$ 1,080
Long-term debt due within one year	203	348
Accounts payable	804	924
Taxes	132	105
Interest	203	282
Dividends	287	273
Customer deposits	271	292
Regulatory liabilities	137	95
Other current liabilities	547	624
Total Current Liabilities	4,448	4,023
Long-term Debt	20,217	19,847
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,632	2,462
Investment tax credits	128	129
Accrued pension obligations	665	800
Asset retirement obligations	297	312
Regulatory liabilities	2,747	2,704
Other deferred credits and noncurrent liabilities	456	441
Total Deferred Credits and Other Noncurrent Liabilities	6,925	6,848
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	10,462	10,305
Earnings reinvested	4,266	3,871
Accumulated other comprehensive loss	(3,495)	(3,422)
Total Equity	11,240	10,761
Total Liabilities and Equity	\$ 42,830	\$ 41,479

(a) 1,560,000 shares authorized; 699,128 and 693,398 shares issued and outstanding at June 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

L Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2017	693,398	\$ 7	\$ 10,305	\$ 3,871	\$ (3,422)	\$ 10,761
Common stock issued	5,730		163			163
Stock-based compensation			(6)			(6)
Net income				967		967
Dividends and dividend equivalents				(572)		(572)
Other comprehensive income (loss)					(73)	(73)
June 30, 2018	699,128	\$ 7	\$ 10,462	\$ 4,266	\$ (3,495)	\$ 11,240
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	5,742		202			202
Stock-based compensation			(20)			(20)
Net income				695		695
Dividends and dividend equivalents				(541)		(541)
Other comprehensive income (loss)					255	255
June 30, 2017	685,473	\$ 7	\$ 10,023	\$ 3,983	\$ (3,523)	\$ 10,490

(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
PL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues	\$ 517	\$ 500	\$ 1,156	\$ 1,073
Operating Expenses				
Operation				
Energy purchases	115	107	276	253
Other operation and maintenance	159	139	292	302
Depreciation	88	76	173	151
Taxes, other than income	22	23	54	52
Total Operating Expenses	384	345	795	758
Operating Income	133	155	361	315
Other Income (Expense) - net	7	4	13	4
Interest Income from Affiliate	1	1	1	1
Interest Expense	39	36	76	69
Income Before Income Taxes	102	124	299	251
Income Taxes	27	47	76	95
Net Income (a)	\$ 75	\$ 77	\$ 223	\$ 156

(a) Net income equals comprehensive income.

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 223	\$ 156
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	173	151
Amortization	11	15
Defined benefit plans - expense	—	7
Deferred income taxes and investment tax credits	53	84
Other	(9)	(4)
Change in current assets and current liabilities		
Accounts receivable	37	13
Accounts payable	(60)	(59)
Unbilled revenues	30	17
Prepayments	(47)	(52)
Regulatory assets and liabilities, net	(27)	(12)
Taxes payable	(1)	(4)
Other	1	(6)
Other operating activities		
Defined benefit plans - funding	(28)	(24)
Other assets	(41)	(4)
Other liabilities	49	1
Net cash provided by operating activities	<u>364</u>	<u>279</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(518)	(550)
Net decrease in notes receivable from affiliate	—	(270)
Other investing activities	(3)	(4)
Net cash used in investing activities	<u>(521)</u>	<u>(824)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	398	470
Contributions from parent	425	575
Payment of common stock dividends to parent	(222)	(154)
Net decrease in short-term debt	—	(295)
Other financing activities	(4)	(5)
Net cash provided by financing activities	<u>597</u>	<u>591</u>
Net Increase in Cash, Cash Equivalents and Restricted Cash	440	46
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>\$ 491</u>	<u>\$ 61</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 180	\$ 157

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
PL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 489	\$ 49
Accounts receivable (less reserve: 2018, \$27; 2017, \$24)		
Customer	289	279
Other	23	71
Accounts receivable from affiliates	11	—
Unbilled revenues	97	127
Materials and supplies	28	34
Prepayments	53	6
Regulatory assets	16	16
Other current assets	13	6
Total Current Assets	1,019	588
Property, Plant and Equipment		
Regulated utility plant	11,140	10,785
Less: accumulated depreciation - regulated utility plant	2,815	2,778
Regulated utility plant, net	8,325	8,007
Construction work in progress	586	508
Property, Plant and Equipment, net	8,911	8,515
Other Noncurrent Assets		
Regulatory assets	737	709
Intangibles	260	259
Other noncurrent assets	56	11
Total Other Noncurrent Assets	1,053	979
Total Assets	\$ 10,983	\$ 10,082

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
PL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	<u>June 30,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 374	\$ 386
Accounts payable to affiliates	29	31
Taxes	7	8
Interest	37	36
Regulatory liabilities	66	86
Other current liabilities	99	98
Total Current Liabilities	612	645
Long-term Debt	3,693	3,298
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,225	1,154
Accrued pension obligations	212	246
Regulatory liabilities	692	668
Other deferred credits and noncurrent liabilities	131	79
Total Deferred Credits and Other Noncurrent Liabilities	2,260	2,147
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	3,154	2,729
Earnings reinvested	900	899
Total Equity	4,418	3,992
Total Liabilities and Equity	\$ 10,983	\$ 10,082

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 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
December 31, 2017	66,368	\$ 364	\$ 2,729	\$ 899	\$ 3,992
Net income				223	223
Capital contributions from PPL			425		425
Dividends declared on common stock				(222)	(222)
June 30, 2018	66,368	\$ 364	\$ 3,154	\$ 900	\$ 4,418
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				156	156
Capital contributions from PPL			575		575
Dividends declared on common stock				(154)	(154)
June 30, 2017	66,368	\$ 364	\$ 2,729	\$ 875	\$ 3,968

(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.

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

(Unaudited)
(Millions of Dollars)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues	\$ 743	\$ 723	\$ 1,615	\$ 1,532
Operating Expenses				
Operation				
Fuel	189	183	403	374
Energy purchases	33	29	113	98
Other operation and maintenance	211	192	416	397
Depreciation	118	105	235	210
Taxes, other than income	18	16	35	32
Total Operating Expenses	569	525	1,202	1,111
Operating Income	174	198	413	421
Other Income (Expense) - net	1	(4)	(2)	(8)
Interest Expense	52	50	102	99
Interest Expense with Affiliate	6	4	11	8
Income Before Income Taxes	117	140	298	306
Income Taxes	31	53	70	116
Net Income	\$ 86	\$ 87	\$ 228	\$ 190

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 86	\$ 87	\$ 228	\$ 190
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$7, \$0, \$7	1	(11)	—	(11)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	—	—	1
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	1	1	1	1
Net actuarial (gain) loss, net of tax of \$0, (\$1), (\$1), (\$2)	(1)	1	1	2
Total other comprehensive income (loss)	1	(9)	2	(7)
Comprehensive income	\$ 87	\$ 78	\$ 230	\$ 183

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

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

(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 228	\$ 190
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	235	210
Amortization	9	14
Defined benefit plans - expense	8	12
Deferred income taxes and investment tax credits	30	91
Other	(1)	—
Change in current assets and current liabilities		
Accounts receivable	16	13
Accounts payable	(10)	(28)
Accounts payable to affiliates	1	—
Unbilled revenues	40	23
Fuel, materials and supplies	26	41
Regulatory assets and liabilities, net	69	(7)
Taxes payable	(25)	3
Other	(40)	(14)
Other operating activities		
Defined benefit plans - funding	(122)	(29)
Expenditures for asset retirement obligations	(26)	(12)
Other assets	(1)	(2)
Other liabilities	3	6
Net cash provided by operating activities	<u>440</u>	<u>511</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(564)	(355)
Net cash used in investing activities	<u>(564)</u>	<u>(355)</u>
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliate	(126)	(4)
Issuance of long-term debt with affiliate	250	—
Issuance of long-term debt	100	60
Retirement of long-term debt	—	(60)
Distributions to member	(161)	(218)
Net increase in short-term debt	72	73
Other financing activities	(2)	(1)
Net cash provided by (used in) financing activities	<u>133</u>	<u>(150)</u>
Net Increase in Cash and Cash Equivalents	<u>9</u>	<u>6</u>
Cash and Cash Equivalents at Beginning of Period	30	13
Cash and Cash Equivalents at End of Period	<u>\$ 39</u>	<u>\$ 19</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 112	\$ 83

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

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

(Unaudited)
(Millions of Dollars)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 39	\$ 30
Accounts receivable (less reserve: 2018, \$26; 2017, \$25)		
Customer	229	246
Other	45	44
Unbilled revenues	163	203
Fuel, materials and supplies	229	254
Prepayments	31	25
Regulatory assets	11	18
Other current assets	6	8
Total Current Assets	753	828
Property, Plant and Equipment		
Regulated utility plant	13,346	13,187
Less: accumulated depreciation - regulated utility plant	1,955	1,785
Regulated utility plant, net	11,391	11,402
Construction work in progress	880	627
Property, Plant and Equipment, net	12,271	12,029
Other Noncurrent Assets		
Regulatory assets	793	795
Goodwill	996	996
Other intangibles	82	86
Other noncurrent assets	75	68
Total Other Noncurrent Assets	1,946	1,945
Total Assets	\$ 14,970	\$ 14,802

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

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

(Unaudited)
(Millions of Dollars)

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 316	\$ 244
Long-term debt due within one year	203	98
Notes payable with affiliates	99	225
Accounts payable	266	338
Accounts payable to affiliates	8	7
Customer deposits	59	58
Taxes	41	66
Price risk management liabilities	4	4
Regulatory liabilities	71	9
Interest	32	32
Asset retirement obligations	84	85
Other current liabilities	124	161
Total Current Liabilities	1,307	1,327
Long-term Debt		
Long-term debt	4,657	4,661
Long-term debt to affiliate	650	400
Total Long-term Debt	5,307	5,061
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	878	866
Investment tax credits	127	129
Price risk management liabilities	17	22
Accrued pension obligations	259	365
Asset retirement obligations	248	271
Regulatory liabilities	2,055	2,036
Other deferred credits and noncurrent liabilities	140	162
Total Deferred Credits and Other Noncurrent Liabilities	3,724	3,851
Commitments and Contingent Liabilities (Notes 7 and 10)		
Member's Equity	4,632	4,563
Total Liabilities and Equity	\$ 14,970	\$ 14,802

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

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

(Unaudited)
 (Millions of Dollars)

	Member's Equity
December 31, 2017	\$ 4,563
Net income	228
Distributions to member	(161)
Other comprehensive income	2
June 30, 2018	\$ 4,632
December 31, 2016	\$ 4,667
Net income	190
Distributions to member	(218)
Other comprehensive income	(7)
June 30, 2017	\$ 4,632

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Retail and wholesale	\$ 331	\$ 320	\$ 738	\$ 694
Electric revenue from affiliate	4	4	16	21
Total Operating Revenues	335	324	754	715
Operating Expenses				
Operation				
Fuel	72	69	151	149
Energy purchases	28	25	104	89
Energy purchases from affiliate	2	3	8	5
Other operation and maintenance	93	86	182	171
Depreciation	49	45	97	89
Taxes, other than income	9	9	18	17
Total Operating Expenses	253	237	560	520
Operating Income	82	87	194	195
Other Income (Expense) - net	(1)	1	(2)	(3)
Interest Expense	19	19	37	36
Income Before Income Taxes	62	69	155	156
Income Taxes	12	27	33	60
Net Income (a)	\$ 50	\$ 42	\$ 122	\$ 96

(a) Net income equals comprehensive income.

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

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CONDENSED STATEMENTS OF CASH FLOWS
ouisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 122	\$ 96
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	97	89
Amortization	7	7
Defined benefit plans - expense	2	3
Deferred income taxes and investment tax credits	18	57
Change in current assets and current liabilities		
Accounts receivable	11	9
Accounts receivable from affiliates	6	11
Accounts payable	(12)	(17)
Accounts payable to affiliates	(3)	(3)
Unbilled revenues	24	14
Fuel, materials and supplies	31	33
Regulatory assets and liabilities, net	32	(3)
Taxes payable	(2)	(23)
Other	(7)	—
Other operating activities		
Defined benefit plans - funding	(57)	(3)
Expenditures for asset retirement obligations	(10)	(7)
Other liabilities	(4)	1
Net cash provided by operating activities	<u>255</u>	<u>264</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(296)	(177)
Net cash used in investing activities	<u>(296)</u>	<u>(177)</u>
Cash Flows from Financing Activities		
Issuance of long-term debt	100	60
Retirement of long-term debt	—	(60)
Net increase (decrease) in short-term debt	(16)	38
Payment of common stock dividends to parent	(81)	(122)
Contributions from parent	43	—
Other financing activities	(1)	(1)
Net cash provided by (used in) financing activities	<u>45</u>	<u>(85)</u>
Net Increase in Cash and Cash Equivalents	<u>4</u>	<u>2</u>
Cash and Cash Equivalents at Beginning of Period	15	5
Cash and Cash Equivalents at End of Period	<u>\$ 19</u>	<u>\$ 7</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 57	\$ 40

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

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CONDENSED BALANCE SHEETS
Couisville Gas and Electric Company

(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 19	\$ 15
Accounts receivable (less reserve: 2018, \$1; 2017, \$1)		
Customer	104	116
Other	14	13
Unbilled revenues	67	91
Accounts receivable from affiliates	18	24
Fuel, materials and supplies	100	131
Prepayments	16	11
Regulatory assets	11	12
Other current assets	2	3
Total Current Assets	351	416
Property, Plant and Equipment		
Regulated utility plant	5,653	5,587
Less: accumulated depreciation - regulated utility plant	678	614
Regulated utility plant, net	4,975	4,973
Construction work in progress	455	305
Property, Plant and Equipment, net	5,430	5,278
Other Noncurrent Assets		
Regulatory assets	406	411
Goodwill	389	389
Other intangibles	50	53
Other noncurrent assets	23	12
Total Other Noncurrent Assets	868	865
Total Assets	\$ 6,649	\$ 6,559

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

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CONDENSED BALANCE SHEETS
ouisville Gas and Electric Company

(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 183	\$ 199
Long-term debt due within one year	194	98
Accounts payable	132	179
Accounts payable to affiliates	21	23
Customer deposits	28	27
Taxes	23	25
Price risk management liabilities	4	4
Regulatory liabilities	34	3
Interest	11	11
Asset retirement obligations	17	24
Other current liabilities	47	52
Total Current Liabilities	694	645
Long-term Debt	1,614	1,611
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	581	572
Investment tax credits	34	35
Price risk management liabilities	17	22
Accrued pension obligations	—	45
Asset retirement obligations	95	97
Regulatory liabilities	922	919
Other deferred credits and noncurrent liabilities	81	86
Total Deferred Credits and Other Noncurrent Liabilities	1,730	1,776
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,755	1,712
Earnings reinvested	432	391
Total Equity	2,611	2,527
Total Liabilities and Equity	\$ 6,649	\$ 6,559

(a) 75,000 shares authorized; 21,294 shares issued and outstanding at June 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
December 31, 2017	21,294	\$ 424	\$ 1,712	\$ 391	\$ 2,527
Net income				122	122
Capital contributions from LKE			43		43
Cash dividends declared on common stock				(81)	(81)
June 30, 2018	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,755</u>	<u>\$ 432</u>	<u>\$ 2,611</u>
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				96	96
Cash dividends declared on common stock				(122)	(122)
June 30, 2017	<u>21,294</u>	<u>\$ 424</u>	<u>\$ 1,682</u>	<u>\$ 344</u>	<u>\$ 2,450</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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating Revenues				
Retail and wholesale	\$ 412	\$ 403	\$ 877	\$ 838
Electric revenue from affiliate	2	3	8	5
Total Operating Revenues	414	406	885	843
Operating Expenses				
Operation				
Fuel	117	114	252	225
Energy purchases	5	4	9	9
Energy purchases from affiliate	4	4	16	21
Other operation and maintenance	112	100	217	208
Depreciation	70	61	138	121
Taxes, other than income	9	7	17	15
Total Operating Expenses	317	290	649	599
Operating Income	97	116	236	244
Other Income (Expense) - net	3	(2)	—	(4)
Interest Expense	25	24	50	48
Income Before Income Taxes	75	90	186	192
Income Taxes	14	34	38	73
Net Income (a)	\$ 61	\$ 56	\$ 148	\$ 119

(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)

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 148	\$ 119
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	138	121
Amortization	2	6
Defined benefit plans - expense	—	2
Deferred income taxes and investment tax credits	9	70
Other	(1)	—
Change in current assets and current liabilities		
Accounts receivable	4	5
Accounts payable	11	(1)
Accounts payable to affiliates	(12)	(15)
Unbilled revenues	16	9
Fuel, materials and supplies	(5)	8
Regulatory assets and liabilities, net	37	(4)
Taxes payable	4	(29)
Other	(11)	(9)
Other operating activities		
Defined benefit plans - funding	(52)	(21)
Expenditures for asset retirement obligations	(16)	(5)
Other assets	(1)	(3)
Other liabilities	3	4
Net cash provided by operating activities	<u>274</u>	<u>257</u>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(266)	(177)
Net cash used in investing activities	<u>(266)</u>	<u>(177)</u>
Cash Flows from Financing Activities		
Net increase in short-term debt	88	35
Payment of common stock dividends to parent	(136)	(110)
Contributions from parent	45	—
Net cash used in financing activities	<u>(3)</u>	<u>(75)</u>
Net Increase in Cash and Cash Equivalents	<u>5</u>	<u>5</u>
Cash and Cash Equivalents at Beginning of Period	15	7
Cash and Cash Equivalents at End of Period	<u>\$ 20</u>	<u>\$ 12</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
Accrued expenditures for property, plant and equipment at June 30,	\$ 55	\$ 43

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

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CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	June 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 20	\$ 15
Accounts receivable (less reserve: 2018, \$1; 2017, \$1)		
Customer	125	130
Other	31	30
Unbilled revenues	96	112
Fuel, materials and supplies	129	123
Prepayments	15	14
Regulatory assets	—	6
Other current assets	4	5
Total Current Assets	420	435
Property, Plant and Equipment		
Regulated utility plant	7,683	7,592
Less: accumulated depreciation - regulated utility plant	1,275	1,170
Regulated utility plant, net	6,408	6,422
Construction work in progress	424	321
Property, Plant and Equipment, net	6,832	6,743
Other Noncurrent Assets		
Regulatory assets	387	384
Goodwill	607	607
Other intangibles	32	33
Other noncurrent assets	75	52
Total Other Noncurrent Assets	1,101	1,076
Total Assets	\$ 8,353	\$ 8,254

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)

	June 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 133	\$ 45
Long-term debt due within one year	9	—
Accounts payable	121	137
Accounts payable to affiliates	42	53
Customer deposits	31	31
Taxes	23	19
Regulatory liabilities	37	6
Interest	16	16
Asset retirement obligations	67	61
Other current liabilities	35	46
Total Current Liabilities	514	414
Long-term Debt	2,320	2,328
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	690	691
Investment tax credits	93	94
Accrued pension obligations	—	36
Asset retirement obligations	153	174
Regulatory liabilities	1,133	1,117
Other deferred credits and noncurrent liabilities	36	43
Total Deferred Credits and Other Noncurrent Liabilities	2,105	2,155
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,661	2,616
Earnings reinvested	445	433
Total Equity	3,414	3,357
Total Liabilities and Equity	\$ 8,353	\$ 8,254

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 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 loss	Total
December 31, 2017	37,818	\$ 308	\$ 2,616	\$ 433	\$ —	\$ 3,357
Capital contributions from LKE			45			45
Net income				148		148
Cash dividends declared on common stock				(136)		(136)
June 30, 2018	37,818	\$ 308	\$ 2,661	\$ 445	\$ —	\$ 3,414
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				119		119
Cash dividends declared on common stock				(110)		(110)
Other comprehensive income (loss)					1	1
June 30, 2017	37,818	\$ 308	\$ 2,616	\$ 409	\$ —	\$ 3,333

(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)

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 six months ended June 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 indicated Registrant's 2017 Form 10-K and should be read in conjunction with those disclosures.

New Accounting Guidance Adopted *(All Registrants)*

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 as a result of 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.

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For PPL, the non-service cost components of net periodic benefit costs were in a net credit position for the three and six months ended June 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 \$6 million (\$5 million after-tax or \$0.01 per share) and \$11 million (\$9 million after-tax or \$0.01 per share) for the three and six months ended June 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		Six Months	
	2018	2017	2018	2017
PPL	\$ 66	\$ 44	\$ 134	\$ 82
PPL Electric	1	1	3	—
LKE	—	—	2	(2)
LG&E	(2)	—	(1)	(2)
KU	1	—	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.

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	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 852	\$ 485	\$ 489	\$ 49
Restricted cash - current (a)	3	3	2	2
Restricted cash - noncurrent (a)	20	23	—	—
Total Cash, Cash Equivalents and Restricted Cash	\$ 875	\$ 511	\$ 491	\$ 51

(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."

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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 June 30 are as follows:

	Three Months		Six Months	
	2018	2017	2018	2017
Operating Revenues from external customers				
U.K. Regulated	\$ 584	\$ 502	\$ 1,199	\$ 1,070
Kentucky Regulated	743	723	1,615	1,532
Pennsylvania Regulated	517	500	1,156	1,073
Corporate and Other	4	—	4	1
Total	\$ 1,848	\$ 1,725	\$ 3,974	\$ 3,676
Net Income				
U.K. Regulated (a)	\$ 394	\$ 148	\$ 591	\$ 434
Kentucky Regulated	77	79	210	174
Pennsylvania Regulated	75	77	223	156
Corporate and Other	(31)	(12)	(57)	(69)
Total	\$ 515	\$ 292	\$ 967	\$ 695

(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:

	June 30, 2018	December 31, 2017
Assets		
U.K. Regulated (a)	\$ 16,839	\$ 16,813
Kentucky Regulated	14,636	14,468
Pennsylvania Regulated	10,995	10,082
Corporate and Other (b)	360	116
Total	\$ 42,830	\$ 41,479

(a) Includes \$12.6 billion and \$12.5 billion of net PP&E as of June 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.

(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.

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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.

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 primarily 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

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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 June 30, 2018.

	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 1,848	\$ 517	\$ 743	\$ 335	\$ 414
Revenues derived from:					
Alternative revenue programs (b)	9	—	9	6	3
Other (c)	(13)	(2)	(4)	(2)	(2)
Revenues from Contracts with Customers	\$ 1,844	\$ 515	\$ 748	\$ 339	\$ 415

	Six Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 3,974	\$ 1,156	\$ 1,615	\$ 754	\$ 885
Revenues derived from:					
Alternative revenue programs (b)	41	2	39	20	19
Other (c)	(28)	(6)	(9)	(3)	(6)
Revenues from Contracts with Customers	\$ 3,987	\$ 1,152	\$ 1,645	\$ 771	\$ 898

- (a) PPL includes \$584 million and \$1,199 million for the three and six months ended June 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 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 \$414 million and \$101 million for the three months ended June 30, 2018 and \$946 million and \$206 million for the six months ended June 30, 2018.

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

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	Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 547	\$ —	\$ —	\$ —	\$ —
Residential	588	300	288	146	142
Commercial	296	89	207	107	100
Industrial	155	12	143	45	98
Other (b)	114	13	67	30	37
Wholesale - municipal	31	—	31	—	31
Wholesale - other (c)	12	—	12	11	7
Transmission	101	101	—	—	—
Revenues from Contracts with Customers	\$ 1,844	\$ 515	\$ 748	\$ 339	\$ 415

	Six Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 1,131	\$ —	\$ —	\$ —	\$ —
Residential	1,392	708	684	343	341
Commercial	621	187	434	231	203
Industrial	310	25	285	89	196
Other (b)	220	26	135	61	74
Wholesale - municipal	61	—	61	—	61
Wholesale - other (c)	46	—	46	47	23
Transmission	206	206	—	—	—
Revenues from Contracts with Customers	\$ 3,987	\$ 1,152	\$ 1,645	\$ 771	\$ 898

(a) Represents customers of WPD.

(b) Primarily includes revenues from pole attachments, street lighting and other public authorities.

(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.

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

	Three Months	Six Months
PPL	\$ 3	\$ 13
PPL Electric	3	10
LKE	1	3
LG&E	—	1
KU	1	2

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 June 30, 2018	38	14	8	4	3

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

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	Six Months
PPL	\$ 18
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 June 30, 2018, PPL had \$70 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately \$50 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 June 30 used in the EPS calculation are:

	Three Months		Six Months	
	2018	2017	2018	2017
Income (Numerator)				
Net income	\$ 515	\$ 292	\$ 967	\$ 695
Less amounts allocated to participating securities	—	—	1	1
Net income available to PPL common shareowners - Basic and Diluted	<u>\$ 515</u>	<u>\$ 292</u>	<u>\$ 966</u>	<u>\$ 694</u>
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	699,006	683,841	696,772	682,370
Add incremental non-participating securities:				
Share-based payment awards	173	2,510	491	2,355
Forward sale agreements	1,797	—	898	—
Weighted-average shares - Diluted EPS	<u>700,976</u>	<u>686,351</u>	<u>698,161</u>	<u>684,725</u>
Basic EPS				
Net Income available to PPL common shareowners	\$ 0.74	\$ 0.43	\$ 1.39	\$ 1.02
Diluted EPS				
Net Income available to PPL common shareowners	\$ 0.73	\$ 0.43	\$ 1.38	\$ 1.01

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

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	Three Months		Six Months	
	2018	2017	2018	2017
Stock-based compensation plans (a)	12	564	488	1,451
DRIP	526	369	1,011	814

(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.

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

	Three Months		Six Months	
	2018	2017	2018	2017
Stock options	441	696	336	696
Restricted stock units	23	—	21	—

6. Income Taxes

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

(PPL)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 138	\$ 129	\$ 257	\$ 315
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	10	10	25	23
Valuation allowance adjustments	5	—	12	5
Impact of lower U.K. income tax rates relative to U.S. income tax rates (a)	(6)	(40)	(13)	(88)
U.S. income tax on foreign earnings - net of foreign tax credit (a) (b)	—	(7)	1	(16)
Federal and state tax reserve adjustments	3	—	3	—
Impact of the U.K. Finance Acts	(2)	(6)	(3)	(9)
Depreciation and other items not normalized	(2)	(2)	(4)	(5)
Amortization of excess deferred income taxes (a)	(9)	—	(19)	—
Deferred tax impact of state tax reform (c)	9	—	9	—
Interest benefit on U.K. financing entities	(4)	(4)	(9)	(8)
Stock-based compensation	—	(4)	1	(7)
Other	—	—	(1)	(5)
Total increase (decrease)	4	(53)	2	(110)
Total income taxes	\$ 142	\$ 76	\$ 259	\$ 205

(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.

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(PL Electric)

	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 22	\$ 44	\$ 63	\$ 88
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	9	24	17
Depreciation and other items not normalized	(1)	(2)	(3)	(4)
Amortization of excess deferred income taxes (a)	(3)	—	(8)	—
Stock-based compensation	—	(3)	—	(5)
Other	1	(1)	—	(1)
Total increase (decrease)	5	3	13	7
Total income taxes	\$ 27	\$ 47	\$ 76	\$ 95

(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		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 25	\$ 49	\$ 63	\$ 107
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	3	5	11	11
Deferred tax impact of state tax reform (c)	9	—	9	—
Amortization of excess deferred income taxes (a)	(6)	—	(11)	—
Other	—	(1)	(2)	(2)
Total increase (decrease)	6	4	7	9
Total income taxes	\$ 31	\$ 53	\$ 70	\$ 116

(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		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 13	\$ 24	\$ 33	\$ 55
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	2	3	6	6
Amortization of excess deferred income taxes (a)	(3)	—	(5)	—
Other	—	—	(1)	(1)
Total increase (decrease)	(1)	3	—	5
Total income taxes	\$ 12	\$ 27	\$ 33	\$ 60

(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.

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	Three Months		Six Months	
	2018	2017	2018	2017
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 16	\$ 32	\$ 39	\$ 67
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit (b)	2	3	7	7
Amortization of excess deferred income taxes (a)	(3)	—	(6)	—
Other	(1)	(1)	(2)	(1)
Total increase (decrease)	(2)	2	(1)	6
Total income taxes	\$ 14	\$ 34	\$ 38	\$ 73

(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. LG&E and KU continue to evaluate other impacts of Kentucky state tax reform along with the associated regulatory considerations. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

U.S. Tax Reform (All Registrants)

On August 1, 2018, the Department of Treasury and the IRS issued proposed regulations under Internal Revenue Code Section 965 to provide guidance relating to the transition tax upon the mandatory deemed repatriation of certain deferred foreign earnings. On August 3, 2018, the Department of Treasury and the IRS also issued proposed regulations on the new 100 percent depreciation deduction effective for assets placed in service after September 27, 2017. The Registrants are currently reviewing the proposed regulations to determine what impact the newly issued guidance may have on their financial statements.

7. Utility Rate Regulation

(All Registrants)

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

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	PPL		PPL Electric	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current Regulatory Assets:				
Environmental cost recovery	\$ —	\$ 5	\$ —	\$ —
Generation formula rate	—	6	—	—
Smart meter rider	15	15	15	15
Plant outage costs	6	3	—	—
Gas supply clause	5	4	—	—
Other	1	1	1	1
Total current regulatory assets (a)	\$ 27	\$ 34	\$ 16	\$ 16
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 857	\$ 880	\$ 491	\$ 504
Taxes recoverable through future rates	3	3	3	3
Storm costs (b)	47	33	21	—
Unamortized loss on debt	49	54	25	29
Interest rate swaps	21	26	—	—
Terminated interest rate swaps	89	92	—	—
Accumulated cost of removal of utility plant	182	173	182	173
AROs	260	234	—	—
Act 129 compliance rider	15	—	15	—
Other	7	9	—	—
Total noncurrent regulatory assets	\$ 1,530	\$ 1,504	\$ 737	\$ 709
Current Regulatory Liabilities:				
Generation supply charge	\$ 30	\$ 34	\$ 30	\$ 34
Transmission service charge	4	9	4	9
Environmental cost recovery	25	1	—	—
Universal service rider	20	26	20	26
Transmission formula rate	11	9	11	9
Fuel adjustment clause	5	3	—	—
TCJA customer refund (c)	33	—	—	—
Storm damage expense rider	1	8	1	8
Other	8	5	—	—
Total current regulatory liabilities	\$ 137	\$ 95	\$ 66	\$ 86
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	\$ 678	\$ 677	\$ —	\$ —
Power purchase agreement - OVEC (d)	64	68	—	—
Net deferred taxes (e)	1,858	1,853	652	668
Defined benefit plans	31	27	—	—
Terminated interest rate swaps	72	74	—	—
TCJA customer refund (f)	37	—	37	—
Other	7	5	3	—
Total noncurrent regulatory liabilities	\$ 2,747	\$ 2,704	\$ 692	\$ 668

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	LKE		LG&E		KU	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current Regulatory Assets:						
Environmental cost recovery	\$ —	\$ 5	\$ —	\$ 5	\$ —	\$ —
Generation formula rate	—	6	—	—	—	6
Plant outage costs	6	3	6	3	—	—
Gas supply clause	5	4	5	4	—	—
Total current regulatory assets	\$ 11	\$ 18	\$ 11	\$ 12	\$ —	\$ 6
Noncurrent Regulatory Assets:						
Defined benefit plans	\$ 366	\$ 376	\$ 231	\$ 234	\$ 135	\$ 142
Storm costs	26	33	14	18	12	15
Unamortized loss on debt	24	25	15	16	9	9
Interest rate swaps	21	26	21	26	—	—
Terminated interest rate swaps	89	92	52	54	37	38
AROs	260	234	71	61	189	173
Other	7	9	2	2	5	7
Total noncurrent regulatory assets	\$ 793	\$ 795	\$ 406	\$ 411	\$ 387	\$ 384
Current Regulatory Liabilities:						
Environmental cost recovery	\$ 25	\$ 1	\$ 14	\$ —	\$ 11	\$ 1
Fuel adjustment clause	5	3	1	—	4	3
Gas line tracker	2	3	2	3	—	—
TCJA customer refund (c)	33	—	15	—	18	—
Other	6	2	2	—	4	2
Total current regulatory liabilities	\$ 71	\$ 9	\$ 34	\$ 3	\$ 37	\$ 6
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	\$ 678	\$ 677	\$ 280	\$ 282	\$ 398	\$ 395
Power purchase agreement - OVEC (d)	64	68	44	47	20	21
Net deferred taxes (e)	1,206	1,185	561	552	645	633
Defined benefit plans	31	27	—	—	31	27
Terminated interest rate swaps	72	74	36	37	36	37
Other	4	5	1	1	3	4
Total noncurrent regulatory liabilities	\$ 2,055	\$ 2,036	\$ 922	\$ 919	\$ 1,133	\$ 1,117

- (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 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 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)

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 full deployment is expected to be completed in 2021 with estimated capital costs of \$155 million and \$104 million for KU and LG&E electric service and \$62 million for LG&E gas service. The full Advanced Metering Systems deployment is expected to result in incremental operation and maintenance costs during the deployment phase of \$17 million and \$11 million for KU and LG&E electric service and \$3 million for LG&E gas service. A hearing on this matter was held July 24, 2018. LG&E and KU cannot predict the outcome of this proceeding.

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. 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. Ongoing tax savings are also expected to be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 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 March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issues related to the TCJA. A hearing on this matter was held May 24, 2018. Post-hearing briefs have been filed and the case is now submitted to the KPSC for a decision.

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LG&E and KU cannot predict the outcome of these proceedings.

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 \$37 million relates to the period January 1, 2018 through June 30, 2018 and has been recorded as a noncurrent regulatory liability to be distributed to customers pursuant to a future rate adjustment. The remaining \$35 million is the estimated impact for the period July 1, 2018 through December 31, 2018 and will be passed back to customers through the negative surcharge beginning 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 Federal Energy Regulatory Commission, to accelerate incorporation of the changes to the federal corporate

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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 joint transmission owners filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing submitted by the PJM joint transmission owners 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 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.

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 six months ended June 30, 2018, PPL Electric purchased \$297 million and \$673 million of accounts receivable from alternate suppliers. During the three and six months ended June 30, 2017, PPL Electric purchased \$288 million and \$644 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:

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	June 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	
PPL								
U.K.								
WPD plc								
Syndicated Credit Facility (a)	Jan. 2023	£ 210	£ 150	£ —	£ 60	£ 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	99	—	201	180	—	
WPD (West Midlands)								
Syndicated Credit Facility (d)	July 2021	300	34	—	266	120	—	
Uncommitted Credit Facilities		130	—	4	126	—	4	
Total U.K. Credit Facilities (e)		£ 1,315	£ 413	£ 4	£ 898	£ 448	£ 4	
U.S.								
PPL Capital Funding								
Syndicated Credit Facility	Jan. 2023	\$ 950	\$ —	\$ 950	\$ —	\$ —	\$ 230	
Syndicated Credit Facility	Nov. 2018	300	—	49	251	—	—	
Bilateral Credit Facility	Mar. 2019	100	—	20	80	—	18	
Total PPL Capital Funding Credit Facilities		\$ 1,350	\$ —	\$ 1,019	\$ 331	\$ —	\$ 248	
PL Electric								
Syndicated Credit Facility	Jan. 2023	\$ 650	\$ —	\$ 1	\$ 649	\$ —	\$ 1	
LKE								
Syndicated Credit Facility	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ —	\$ —	
LG&E								
Syndicated Credit Facility	Jan. 2023	\$ 500	\$ —	\$ 183	\$ 317	\$ —	\$ 199	
Term Loan Credit Facility	Oct. 2019	200	200	—	—	100	—	
Total LG&E Credit Facilities		\$ 700	\$ 200	\$ 183	\$ 317	\$ 100	\$ 199	
KU								
Syndicated Credit Facility	Jan. 2023	\$ 400	\$ —	\$ 133	\$ 267	\$ —	\$ 45	
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 331	\$ 267	\$ —	\$ 243	

- (a) The amounts borrowed at June 30, 2018 and December 31, 2017 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 2.81% and 2.17%. The unused capacity reflects the amount borrowed in GBP of £150 million as of the date borrowed.
- (b) The amount borrowed at June 30, 2018 was a GBP-denominated borrowing which equated to \$173 million and bore interest at 1.75%.
- (c) The amounts borrowed at June 30, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$132 million and \$244 million and bore interest at 0.90% and 0.89%.
- (d) The amounts borrowed at June 30, 2018 and December 31, 2017 were GBP-denominated borrowings which equated to \$45 million and \$162 million and bore interest at 0.90% and 0.89%.
- (e) At June 30, 2018, the unused capacity under the U.K. credit facilities was \$1.2 billion.

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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:

	June 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	2.42%	\$ 1,000	\$ 999	\$ 1	1.64%	\$ 230
PPL Electric		650	—	650		—
LG&E	2.33%	350	183	167	1.83%	199
KU	2.34%	350	133	217	1.97%	45
Total		\$ 2,350	\$ 1,315	\$ 1,035		\$ 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.

(PL 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.

(PPL, LKE and KU)

In July 2018, KU redeemed, at par, its \$9 million County of Trimble, Kentucky, Environmental Facilities Revenue Bonds, 2007 Series A (Kentucky Utilities Company Project) due 2037.

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(KE)

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 with 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. Settlement of these forward sale agreements will occur no later than November 2019. Upon any physical settlement 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. PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement for general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to any settlements, 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 1.2 million and 4.2 million shares of common stock and received gross proceeds of \$34 million and \$119 million for the three and six months ended June 30, 2018.

Distributions

In May 2018, PPL declared a quarterly common stock dividend, payable July 2, 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.

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Defined Benefits

(P, 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 its subsidiaries, and LG&E for the periods ended June 30:

	Pension Benefits							
	Three Months				Six Months			
	U.S.		U.K.		U.S.		U.K.	
	2018	2017	2018	2017	2018	2017	2018	2017
PPL								
Service cost	\$ 15	\$ 15	\$ 21	\$ 18	\$ 31	\$ 32	\$ 42	\$ 37
Interest cost	39	42	47	44	78	84	94	87
Expected return on plan assets	(62)	(58)	(150)	(127)	(124)	(115)	(300)	(252)
Amortization of:								
Prior service cost	3	3	—	—	5	5	—	—
Actuarial loss	19	14	38	36	41	34	77	71
Net periodic defined benefit costs (credits) before special termination benefits	14	16	(44)	(29)	31	40	(87)	(57)
Special termination benefits (a)	—	(1)	—	—	—	1	—	—
Net periodic defined benefit costs (credits)	\$ 14	\$ 15	\$ (44)	\$ (29)	\$ 31	\$ 41	\$ (87)	\$ (57)

(a) Enhanced pension benefits offered to certain PPL Electric bargaining unit employees under a one-time voluntary retirement window offered as part of the new five year IBEW contract ratified in March 2017.

	Pension Benefits			
	Three Months		Six Months	
	2018	2017	2018	2017
LKE				
Service cost	\$ 5	\$ 5	\$ 12	\$ 12
Interest cost	16	18	32	34
Expected return on plan assets	(25)	(24)	(51)	(46)
Amortization of:				
Prior service cost	2	2	4	4
Actuarial loss (a)	8	4	18	15
Net periodic defined benefit costs (b)	\$ 6	\$ 5	\$ 15	\$ 19

- (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 \$6 million for the three and six months ended June 30, 2018 and \$5 million for the six months ended June 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 \$4 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

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	Pension Benefits			
	Three Months		Six Months	
	2018	2017	2018	2017
LG&E				
Service cost	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	3	3	6	6
Expected return on plan assets	(6)	(6)	(11)	(11)
Amortization of:				
Prior service cost	2	1	3	2
Actuarial loss (a)	1	1	3	4
Net periodic defined benefit costs (b)	\$ 1	\$ —	\$ 2	\$ 2

- (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 six months ended June 30, 2018 and 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 \$4 million was incurred. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount will be amortized in accordance with existing regulatory practice.

	Other Postretirement Benefits			
	Three Months		Six Months	
	2018	2017	2018	2017
PPL				
Service cost	\$ 3	\$ 2	\$ 4	\$ 4
Interest cost	7	6	10	12
Expected return on plan assets	(9)	(5)	(13)	(11)
Amortization of prior service cost	1	(1)	—	(1)
Net periodic defined benefit costs	\$ 2	\$ 2	\$ 1	\$ 4

	Three Months		Six Months	
	2018	2017	2018	2017
LKE				
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	2	2	4	4
Expected return on plan assets	(2)	(2)	(4)	(3)
Amortization of:				
Prior service cost	1	—	1	—
Actuarial gain	(1)	—	(1)	—
Net periodic defined benefit costs	\$ 1	\$ 1	\$ 2	\$ 3

(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 June 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		Six Months	
	2018	2017	2018	2017
PPL Electric	\$ 3	\$ 5	\$ 7	\$ 13
LG&E	2	2	4	5
KU	1	1	2	5

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(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 loss) are presented in "Other Income (Expense) - net" on the Statements of Income. See Note 12 for details.

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.

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

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky alleging violations of the Clean Air Act, 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 had three coal-fired units retired 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 District Court issued an order dismissing PPL as a defendant and dismissing the final federal claim against LG&E. On April 13, 2017, the federal District Court issued an order declining to exercise supplemental jurisdiction on the state law claims and dismissed the case in its entirety. On June 16, 2017, the plaintiffs filed a class action complaint in Jefferson Circuit Court, Kentucky, 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)*

In July 12, 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs 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 for the Eastern District of Kentucky 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. 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. PPL, LKE and KU cannot predict the outcome of these matters and an estimate or range of possible losses cannot be determined.

Regulatory Issues *(All Registrants)*

See Note 7 for information on regulatory matters related to utility rate regulation.

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Electricity - Reliability Standards

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

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

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

In the course of implementing their programs to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. The Registrants cannot predict the outcome of these matters, and 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 and sulfur dioxide. The established concentration levels for these six pollutants are known as NAAQS. Under the Clean Air Act, the EPA is required to reassess the NAAQS on a five-year schedule.

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

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

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

Ozone

The EPA issued the current ozone standard in October 2015. 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, are evaluating the need for further nitrogen oxide reductions from fossil-fueled plants to address interstate impacts. Although PPL, LKE, LG&E and KU are unable to predict the outcome of ongoing and future evaluations by the EPA and the states, such evaluations could potentially result in requirements for nitrogen oxide reductions beyond those currently required under the Cross-State Air Pollution Rule.

Sulfur Dioxide

In 2010, the EPA issued the current NAAQS for sulfur dioxide and required states to identify areas that meet those standards and areas that are in 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.

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.

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

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

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

There continues to be uncertainty about the EPA's regulation of existing coal-fired power plants. In 2015, the EPA had finalized rules imposing GHG emission standards for both new and existing power plants and had 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).

Following legal challenges to the 2015 EPA Rules, a stay of those rules by the U.S. Supreme Court and the March 2017 Executive Order requiring the EPA to review the 2015 EPA Rules, in October 2017, the EPA proposed to rescind the 2015 EPA Rules and, in December 2017, released an advanced notice of proposed rulemaking for a replacement (Replacement Rules) which contemplates GHG reductions based on "inside the fence" measures implemented at individual plants. The contemplated approach in the Replacement Rules is a more limited approach than that taken in the 2015 EPA Rules which had included assumed increased levels of fuel switching and renewable energy in determining the level of emission reduction required by each state. At present, the 2015 EPA Rules remain stayed and the Replacement Rules have not yet been published.

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 consistent with the EPA's notice of proposed rulemaking on the Replacement Rules.

LG&E and KU are monitoring developments at the state and federal level. Until there is more clarity about the potential requirements that may be imposed under the Replacement Rules and Kentucky's implementation plan, 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)

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.

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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 18, 2018, the EPA released a pre-publication copy of a signed 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. 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. Revisions to the current rule could potentially result in additional costs.

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 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.

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

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

Seepages and Groundwater Infiltration

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various LG&E and KU plants. LG&E and KU have completed, or are completing, assessments of seepages or groundwater infiltration at various facilities and have completed, or are working with agencies to implement, further testing, monitoring or abatement measures, where applicable. 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 a review of part two later in 2018.

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.

As of June 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 the paragraph above. Depending on the outcome of investigations at sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; however, such costs are not expected to be significant.

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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.

Future cleanup or remediation work at sites under review, or at sites not yet identified, may result in significant additional costs for PPL, PPL Electric, LKE, LG&E and KU. Insurance policies maintained by LKE, LG&E and KU may be 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. Contract negotiations with the IBEW commenced in July 2018. The current three-year agreement, scheduled to expire on August 1, 2018, was extended to August 9, 2018. Although union members voted to reject a recent agreement reached by KU and the IBEW, negotiations are continuing. KU cannot predict the outcome of these negotiations but does not expect the ultimate outcome of this matter, including terms of any potential new agreement, or lack thereof, to have a material impact on KU.

Guarantees and Other Assurances

(All Registrants)

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

(PPL)

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

(All Registrants)

The table below details guarantees provided as of June 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 June 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.

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	Exposure at June 30, 2018	Expiration Date
<u>PPL</u>		
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	82	(c)
<u>PPL Electric</u>		
Guarantee of inventory value	20	(d) 2020
<u>LKE</u>		
Indemnification of lease termination and other divestitures	200	(e) 2021
<u>LG&E and KU</u>		
LG&E and KU guarantee of shortfall related to OVEC		(f)

(a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.

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

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

(c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At June 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 \$115 million at June 30, 2018, consisting of LG&E's share of \$80 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 is seeking to reject the OVEC power purchase contract, which action OVEC and certain sponsors are contesting. 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.

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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 June 30, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	Three Months		Six Months	
	2018	2017	2018	2017
PPL Electric from PPL Services	\$ 15	\$ 44	\$ 31	\$ 95
LKE from PPL Services	7	5	14	11
PPL Electric from PPL EU Services	41	15	76	33
LG&E from LKS	39	38	77	82
KU from LKS	43	47	85	91

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 June 30, 2018 was \$650 million. No balance was outstanding at June 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. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At June 30, 2018 and December 31, 2017, \$99 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 June 30, 2018 and December 31, 2017 were 3.50% 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 June 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 June 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 \$3 million and \$7 million for the three and six months ending June 30, 2018 and 2017.

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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. June 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 \$2 million for the three and six months ending June 30, 2018.

Other (PPL Electric, LG&E and KU)

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

12. Other Income (Expense) - net

(PPL)

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

	Three Months		Six Months	
	2018	2017	2018	2017
Other Income				
Economic foreign currency exchange contracts (Note 14)	\$ 164	\$ (113)	\$ 52	\$ (156)
Defined benefit plans - non-service credits (Note 9)	66	44	134	82
Interest income	2	—	2	1
AFUDC - equity component	5	4	10	6
Miscellaneous	—	—	1	9
Total Other Income	237	(65)	199	(58)
Other Expense				
Charitable contributions	1	1	5	5
Miscellaneous	2	2	3	14
Total Other Expense	3	3	8	19
Other Income (Expense) - net	\$ 234	\$ (68)	\$ 191	\$ (77)

(PPL Electric)

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

	Three Months		Six Months	
	2018	2017	2018	2017
Other Income				
AFUDC - equity component	\$ 5	\$ 4	\$ 10	\$ 6
Defined benefit plans - non-service credits (Note 9)	1	1	3	—
Miscellaneous	1	—	1	—
Total Other Income	7	5	14	6
Other Expense				
Charitable contributions	—	—	1	1
Miscellaneous	—	1	—	1
Total Other Expense	—	1	1	2
Other Income (Expense) - net	\$ 7	\$ 4	\$ 13	\$ 4

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

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dedicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as performance 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 six months ended June 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:

	June 30, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 852	\$ 852	\$ —	\$ —	\$ 485	\$ 485	\$ —	\$ —
Restricted cash and cash equivalents (a)	23	23	—	—	26	26	—	—
Special use funds (a)	65	65	—	—	—	—	—	—
Price risk management assets (b):								
Foreign currency contracts	163	—	163	—	163	—	163	—
Cross-currency swaps	100	—	100	—	101	—	101	—
Total price risk management assets	263	—	263	—	264	—	264	—
Total assets	\$ 1,203	\$ 940	\$ 263	\$ —	\$ 775	\$ 511	\$ 264	\$ —
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 21	\$ —	\$ 21	\$ —	\$ 26	\$ —	\$ 26	\$ —
Foreign currency contracts	53	—	53	—	148	—	148	—
Total price risk management liabilities	\$ 74	\$ —	\$ 74	\$ —	\$ 174	\$ —	\$ 174	\$ —
PL Electric								
Assets								
Cash and cash equivalents	\$ 489	\$ 489	\$ —	\$ —	\$ 49	\$ 49	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 491	\$ 491	\$ —	\$ —	\$ 51	\$ 51	\$ —	\$ —
LKE								
Assets								
Cash and cash equivalents	\$ 39	\$ 39	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Total assets	\$ 39	\$ 39	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 21	\$ —	\$ 21	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 21	\$ —	\$ 21	\$ —	\$ 26	\$ —	\$ 26	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 19	\$ 19	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 19	\$ 19	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —

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	June 30, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 21	\$ —	\$ 21	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 21	\$ —	\$ 21	\$ —	\$ 26	\$ —	\$ 26	\$ —
KU								
Assets								
Cash and cash equivalents	\$ 20	\$ 20	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 20	\$ 20	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —

- (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 for 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.

	June 30, 2018		December 31, 2017	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 20,420	\$ 23,448	\$ 20,195	\$ 23,783
PPL Electric	3,693	3,950	3,298	3,769
LKE	5,510	5,801	5,159	5,670
LG&E	1,808	1,884	1,709	1,865
KU	2,329	2,480	2,328	2,605

- (a) Amounts are net of debt issuance costs.

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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 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.

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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.

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 \$28 million obligation to return cash collateral under master netting arrangements at June 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 June 30, 2018 and December 31, 2017.

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

LKE, LG&E and KU had no cash collateral posted under master netting arrangements at June 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.

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

Cash Flow Hedges (PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL held no such contracts at June 30, 2018.

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

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

At June 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 June 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.

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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 June 30, 2018.

At June 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.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At June 30, 2018, the total exposure hedged by PPL was approximately £2.0 billion (approximately \$2.8 billion based on contracted rates). These contracts have termination dates ranging from July 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 June 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.

	June 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	—	—	73	31	—	—	45	67
Total current	5	—	73	35	4	—	45	71
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	17	—	—	—	22
Cross-currency swaps (b)	95	—	—	—	97	—	—	—
Foreign currency contracts	—	—	90	22	—	—	118	81
Total noncurrent	95	—	90	39	97	—	118	103
Total derivatives	\$ 100	\$ —	\$ 163	\$ 74	\$ 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.

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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 June 30, 2018.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ —	\$ —	Interest expense	\$ (2)	\$ —	\$ (4)	\$ —
Cross-currency swaps	23	(1)	Other income (expense) - net	24	—	12	—
Total	\$ 23	\$ (1)		\$ 22	\$ —	\$ 8	\$ —
Net Investment Hedges:							
Foreign currency contracts	\$ 12	\$ 11					
Derivatives Not Designated as Hedging Instruments				Location of Gain (Loss) Recognized in Income on Derivative			
						Three Months	Six Months
Foreign currency contracts				Other income (expense) - net		\$ 164	\$ 52
Interest rate swaps				Interest expense		(2)	(3)
Total						\$ 162	\$ 49
Derivatives Not Designated as Hedging Instruments				Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets			
						Three Months	Six Months
Interest rate swaps				Regulatory assets - noncurrent		\$ 1	\$ 5

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 June 30, 2017.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Six Months	
	Three Months	Six Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	\$ (2)	\$ (2)	Interest expense	\$ (2)	\$ —	\$ (4)	\$ (1)
Cross-currency swaps	(27)	(35)	Interest expense	(1)	—	—	—
			Other income (expense) - net	(29)	—	(26)	—
Total	\$ (29)	\$ (37)		\$ (32)	\$ —	\$ (30)	\$ (1)
Net Investment Hedges:							
Foreign currency contracts	\$ —	\$ —					

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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Location of Gain (Loss) Recognized in	
		Three Months	Six Months
Foreign currency contracts	Other income (expense) - net	\$ (113)	\$ (156)
Interest rate swaps	Interest expense	(1)	(3)
	Total	\$ (114)	\$ (159)

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

(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.

	June 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	—	17	—	22
Total noncurrent	—	17	—	22
Total derivatives	\$ —	\$ 21	\$ —	\$ 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 June 30, 2018.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Location of Gain (Loss) Recognized in	
		Three Months	Six Months
Interest rate swaps	Interest expense	\$ (2)	\$ (3)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Location of Gain (Loss) Recognized in	
		Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 1	\$ 5

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 June 30, 2017.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Location of Gain (Loss) Recognized in	
		Three Months	Six Months
Interest rate swaps	Interest expense	\$ (1)	\$ (3)

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

(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

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of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

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

	Assets				Liabilities			
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net
		Derivative Instruments	Cash Collateral Received			Derivative Instruments	Cash Collateral Pledged	
June 30, 2018								
Treasury Derivatives								
PPL	\$ 263	\$ 43	\$ 28	\$ 192	\$ 74	\$ 43	\$ —	\$ 31
LKE	—	—	—	—	21	—	—	21
LG&E	—	—	—	—	21	—	—	21
December 31, 2017								
Treasury Derivatives								
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 June 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:

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	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 17	\$ 7	\$ 7
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)	17	7	7

(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	10	9	3	6
Effect of foreign exchange rates	(1)	—	—	—
Changes in estimated timing or cost	1	(7)	(2)	(5)
Obligations settled	(26)	(26)	(10)	(16)
Balance at June 30, 2018	\$ 381	\$ 332	\$ 112	\$ 220

16. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

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

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
PPL						
March 31, 2018	\$ (973)	\$ (21)	\$ —	\$ (7)	\$ (2,278)	\$ (3,279)
Amounts arising during the period	(250)	19	—	(1)	—	(232)
Reclassifications from AOCI	—	(19)	—	1	34	16
Net OCI during the period	(250)	—	—	—	34	(216)
June 30, 2018	\$ (1,223)	\$ (21)	\$ —	\$ (7)	\$ (2,244)	\$ (3,495)

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	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
December 31, 2017	\$ (1,089)	\$ (13)	\$ —	\$ (7)	\$ (2,313)	\$ (3,422)
Amounts arising during the period	(134)	(1)	—	(1)	(1)	(137)
Reclassifications from AOCI	—	(7)	—	1	70	64
Net OCI during the period	(134)	(8)	—	—	69	(73)
June 30, 2018	\$ (1,223)	\$ (21)	\$ —	\$ (7)	\$ (2,244)	\$ (3,495)
March 31, 2017	\$ (1,651)	\$ (14)	\$ (1)	\$ (8)	\$ (2,103)	\$ (3,777)
Amounts arising during the period	231	(24)	—	—	(11)	196
Reclassifications from AOCI	—	25	1	1	31	58
Net OCI during the period	231	1	1	1	20	254
June 30, 2017	\$ (1,420)	\$ (13)	\$ —	\$ (7)	\$ (2,083)	\$ (3,523)
December 31, 2016	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the period	207	(30)	—	—	(11)	166
Reclassifications from AOCI	—	24	1	1	63	89
Net OCI during the period	207	(6)	1	1	52	255
June 30, 2017	\$ (1,420)	\$ (13)	\$ —	\$ (7)	\$ (2,083)	\$ (3,523)
LKE						
March 31, 2018			\$ —	\$ (9)	\$ (78)	\$ (87)
Amounts arising during the period			—	—	1	1
Reclassifications from AOCI			—	1	(1)	—
Net OCI during the period			—	1	—	1
June 30, 2018			\$ —	\$ (8)	\$ (78)	\$ (86)
December 31, 2017			\$ —	\$ (9)	\$ (79)	\$ (88)
Reclassifications from AOCI			—	1	1	2
Net OCI during the period			—	1	1	2
June 30, 2018			\$ —	\$ (8)	\$ (78)	\$ (86)
March 31, 2017			\$ —	\$ (8)	\$ (60)	\$ (68)
Amounts arising during the period			—	—	(11)	(11)
Reclassifications from AOCI			—	1	1	2
Net OCI during the period			—	1	(10)	(9)
June 30, 2017			\$ —	\$ (7)	\$ (70)	\$ (77)
December 31, 2016			\$ (1)	\$ (8)	\$ (61)	\$ (70)
Amounts arising during the period			—	—	(11)	(11)
Reclassifications from AOCI			1	1	2	4
Net OCI during the period			1	1	(9)	(7)
June 30, 2017			\$ —	\$ (7)	\$ (70)	\$ (77)

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(PL)

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

Details about AOCI	Three Months		Six Months		Affected Line Item on the Statements of Income
	2018	2017	2018	2017	
Qualifying derivatives					
Interest rate swaps	\$ (2)	\$ (2)	\$ (4)	\$ (5)	Interest Expense
Cross-currency swaps	24	(29)	12	(26)	Other Income (Expense) - net
	—	(1)	—	—	Interest Expense
Total Pre-tax	22	(32)	8	(31)	
Income Taxes	(3)	7	(1)	7	
Total After-tax	19	(25)	7	(24)	
Equity investees' AOCI					
	—	(1)	—	(1)	Other Income (Expense) - net
Total Pre-tax	—	(1)	—	(1)	
Income Taxes	—	—	—	—	
Total After-tax	—	(1)	—	(1)	
Defined benefit plans					
Prior service costs (a)	(1)	(1)	(1)	(1)	
Net actuarial loss (a)	(43)	(40)	(88)	(81)	
Total Pre-tax	(44)	(41)	(89)	(82)	
Income Taxes	9	9	18	18	
Total After-tax	(35)	(32)	(71)	(64)	
Total reclassifications during the period	\$ (16)	\$ (58)	\$ (64)	\$ (89)	

(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 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) carryforward 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.

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The Registrants are currently assessing the impact of adopting this guidance as well as the transition method they will use. Key implementation activities in process of being completed include finalizing the lease inventory, concluding on open industry issues and identifying and implementing new controls and processes. The Registrants will adopt this guidance effective January 1, 2019.

Accounting for Financial Instrument Credit Losses

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

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance 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. The guidance also updates certain recognition and presentation requirements as well as disclosure requirements.

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

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

(PL, 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.

(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

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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 six months ended June 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.

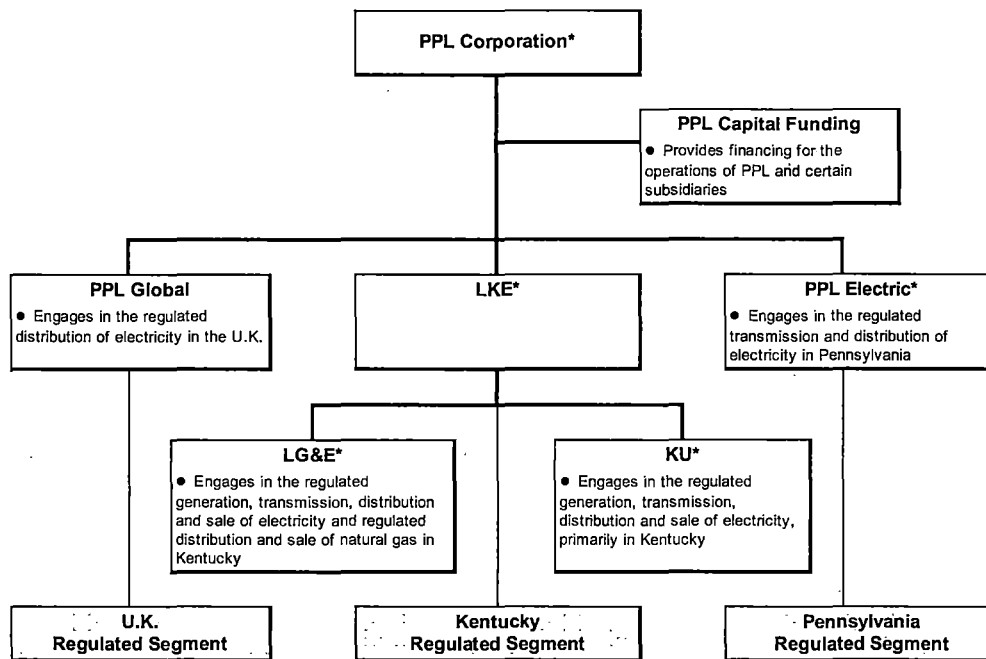
Overview

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

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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

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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. Settlement of these forward sale agreements will occur no later than November 2019. PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement for general corporate purposes.

The forward sale agreements are classified as equity transactions. As a result, no amounts will be recorded in the consolidated financial statements until the settlement of the forward sale agreements. Prior to any settlements, 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 8 to the Financial Statements for additional information.

U.S. Tax Reform (All Registrants)

Substantially all of the provisions of the TCJA, signed into law on December 22, 2017, are effective for taxable years beginning after December 31, 2017 and, to the extent such provisions are relevant to the Registrants, their impact has been reflected in the financial results for the three and six months ended June 30, 2018. With respect to the TCJA provisions applicable to the period ended December 31, 2017, although additional guidance has been issued by the U.S. Department of the Treasury and the IRS concerning the application or operation of those provisions, such guidance has not materially impacted the related amounts reported in the Registrants' financial statements for the periods ended June 30, 2018.

On August 1, 2018, the Department of Treasury and the IRS issued proposed regulations under Internal Revenue Code Section 965 to provide guidance relating to the transition tax upon the mandatory deemed repatriation of certain deferred foreign earnings. On August 3, 2018, the Department of Treasury and the IRS also issued proposed regulations on the new 100 percent depreciation deduction effective for assets placed in service after September 27, 2017. The Registrants are currently reviewing the proposed regulations to determine what impact the newly issued guidance may have on their financial statements.

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. LG&E and KU continue to evaluate other impacts of Kentucky state tax reform along with the associated regulatory considerations. PPL is evaluating the impact, if any, of unitary or elective consolidated income tax reporting on all its Registrants.

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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 July 31, 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. 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. Ongoing tax savings are also expected to be addressed in LG&E's and KU's next Kentucky base rate case. LG&E and KU have indicated their intent to file an application for base rate changes during 2018 to be effective during spring 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

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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 March 30, 2018, following receipt of the Attorney General's response, the KPSC issued an Order amending its March 28, 2018 Order to allow the parties to raise any relevant issues related to the TCJA. A hearing on this matter was held May 24, 2018. Post-hearing briefs have been filed and the case is now submitted to the KPSC for a decision.

LG&E and KU cannot predict the outcome of these proceedings.

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, 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 \$37 million relates to the period January 1, 2018 through June 30, 2018 and has been recorded as a noncurrent regulatory liability to be distributed to customers pursuant to a future rate adjustment. The remaining \$35 million is the estimated impact for the period July 1, 2018 through December 31, 2018 and will be passed back to customers through the negative surcharge beginning 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 Federal Energy Regulatory Commission, 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,

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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 joint transmission owners filing, submitted comments in response to the FERC's March 15, 2018 Notice of Inquiry. The filing submitted by the PJM joint transmission owners 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.

The actual procedures for approval of a utility's application for alternative rates and rate mechanisms are not set forth in Act 58. Rather, the PUC must prescribe those procedures through a regulation or order within six months of the legislation's effective date.

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 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.

RIO-2 Framework Review

On March 7, 2018, Ofgem issued its consultation document on the RIO-2 framework, which covers all U.K. gas and electricity transmission and distribution price controls. The current electricity distribution price control, RIO-ED1, continues through March 31, 2023 and will not be impacted by this RIO-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 RIO-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 RIO-2 framework were due in May 2018. On July 30, 2018, Ofgem published its decision following their RIO-2 framework consultation after consideration of comments received. Ofgem confirmed the following points in the decision document:

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- 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. 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. PPL cannot predict the outcome of this process or the long-term impact it or the final RIIO-ED2 regulations will have on its financial condition or results of operations.

(PPL, LKE, LG&E and KU)

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHGs and ELGs. See Note 10 to the Financial Statements for a discussion of the other significant environmental matters.

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 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.

Rate Case 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.

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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 will be 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 six months ended June 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.

(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 six months ended June 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 June 30 includes the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues	\$ 1,848	\$ 1,725	\$ 123	\$ 3,974	\$ 3,676	\$ 298
Operating Expenses						
Operation						
Fuel	189	183	6	403	374	29
Energy purchases	148	136	12	389	351	38
Other operation and maintenance	506	432	74	974	902	72
Depreciation	273	246	27	542	488	54
Taxes, other than income	74	70	4	157	145	12
Total Operating Expenses	1,190	1,067	123	2,465	2,260	205
Other Income (Expense) - net	234	(68)	302	191	(77)	268
Interest Expense	235	222	13	474	439	35
Income Taxes	142	76	66	259	205	54
Net Income	\$ 515	\$ 292	\$ 223	\$ 967	\$ 695	\$ 272

Operating Revenues

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

	Three Months	Six Months
Domestic:		
PPL Electric Distribution price	\$ 10	\$ 11
PPL Electric Distribution volume	12	32
PPL Electric PLR Revenue (a)	9	26
PPL Electric Transmission Formula Rate	22	50
PPL Electric TCJA refund (b)	(37)	(37)
LKE Volumes (c)	36	103
LKE Base rates	28	58
LKE ECR	6	13
LKE TCJA refund (b)	(37)	(79)
LKE DSM	(3)	(11)
LKE Fuel and other energy prices	(9)	(7)
Other	4	10
Total Domestic	41	169
U.K.:		
Price	10	—
Volume	12	4
Foreign currency exchange rates	51	109
Engineering recharge income	11	19
Other	(2)	(3)
Total U.K.	82	129
Total	\$ 123	\$ 298

(a) The increases were primarily due to higher energy volumes.

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- 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.
- The increases were primarily due to favorable weather in 2018.

Fuel

Fuel increased \$6 million and \$29 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Energy Purchases

Energy purchases increased \$12 million for the three months ended June 30, 2018 compared with 2017, primarily due to an increase in PLR volumes at PPL Electric.

Energy purchases increased \$38 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$23 million increase in PLR volumes at PPL Electric and a \$23 million increase in natural gas volumes at LG&E driven by weather in 2018, partially offset by a \$10 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 June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Domestic:		
LKE timing and scope of generation maintenance outages	\$ 6	\$ 7
LKE vegetation management	3	3
LKE gas distribution maintenance and compliance	2	3
LKE storm costs	2	2
PPL Electric vegetation management	(5)	(10)
PPL Electric storm costs	12	16
PPL Electric payroll-related costs	(1)	(14)
PPL Electric Act 129	1	(2)
PPL Electric bad debts	4	7
PPL Electric smart meter	2	4
PPL Electric contractor-related expenses	2	—
Other	19	7
U.K.:		
Foreign currency exchange rates	10	21
Network maintenance	2	4
Third-party engineering	10	16
Other	5	8
Total	\$ 74	\$ 72

Depreciation

Depreciation increased \$27 million and \$54 million for the three and six months ended June 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 and 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 additions, net of retirements at LG&E and KU and the impact of foreign currency exchange rates at WPD.

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Other Income (Expense) - net

Other income (expense) - net increased \$302 million for the three months ended June 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 \$277 million and an increase in non-service cost credits from defined benefit plans of \$22 million.

Other income (expense) - net increased \$268 million for the six months ended June 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 \$208 million and an increase in non-service cost credits from defined benefit plans of \$52 million.

Interest Expense

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

	Three Months	Six Months
Long-term debt interest expense	\$ 4	\$ 16
Foreign currency exchange rates	8	17
Other	1	2
Total	\$ 13	\$ 35

Income Taxes

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

	Three Months	Six Months
Change in pre-tax income	\$ 99	\$ 108
Reduction in U.S. federal income tax rate (a)	(56)	(88)
Valuation allowances adjustments	5	7
U.S. income tax on foreign earnings - net of foreign tax credit (b)	7	17
Federal and state tax reserve adjustments	3	3
Impact of U.K. Finance Acts	4	6
Amortization of excess deferred income taxes (a)	(9)	(19)
Kentucky state tax reform (c)	9	9
Stock-based compensation	4	8
Other	—	3
Total	\$ 66	\$ 54

(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 June 30 were as follows:

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
U.K. Regulated	\$ 394	\$ 148	\$ 246	\$ 591	\$ 434	\$ 157
Kentucky Regulated	77	79	(2)	210	174	36
Pennsylvania Regulated	75	77	(2)	223	156	67
Corporate and Other (a)	(31)	(12)	(19)	(57)	(69)	12
Net Income	\$ 515	\$ 292	\$ 223	\$ 967	\$ 695	\$ 272

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Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The change in 2018 compared with 2017 is 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.

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.
- 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 June 30 were as follows:

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
U.K. Regulated	\$ 254	\$ 212	\$ 42	\$ 516	\$ 519	\$ (3)
Kentucky Regulated	86	79	7	219	175	44
Pennsylvania Regulated	75	77	(2)	223	156	67
Corporate and Other	(31)	(12)	(19)	(57)	(69)	12
Earnings from Ongoing Operations	\$ 384	\$ 356	\$ 28	\$ 901	\$ 781	\$ 120

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 61% of PPL's Net Income for the six months ended June 30, 2018 and 39% of PPL's assets at June 30, 2018.

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

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	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating revenues	\$ 584	\$ 502	\$ 82	\$ 1,199	\$ 1,070	\$ 129
Other operation and maintenance	137	106	31	269	213	56
Depreciation	63	57	6	125	112	13
Taxes, other than income	34	30	4	68	61	7
Total operating expenses	234	193	41	462	386	76
Other Income (Expense) - net	229	(69)	298	182	(69)	251
Interest Expense	97	97	—	204	191	13
Income Taxes	88	(5)	93	124	(10)	134
Net Income	394	148	246	591	434	157
Less: Special Items	140	(64)	204	75	(85)	160
Earnings from Ongoing Operations	\$ 254	\$ 212	\$ 42	\$ 516	\$ 519	\$ (3)

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 June 30.

Income Statement Line Item	Three Months		Six Months	
	2018	2017	2018	2017
Foreign currency economic hedges, net of tax of (\$37), \$34, (\$20), \$46				
(a) Other Income (Expense) - net	\$ 140	\$ (64)	\$ 75	\$ (85)
Total Special Items	\$ 140	\$ (64)	\$ 75	\$ (85)

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

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	Six Months
U.K.		
U.K. Adjusted Gross Margins	\$ 22	\$ 5
Other operation and maintenance	(7)	(11)
Depreciation	(1)	(2)
Other Income (Expense) - net	15	31
Interest expense	8	3
Other	—	(3)
Income taxes	(13)	(17)
U.S.		
Interest expense and other	(3)	(3)
Income taxes	(4)	(46)
Foreign currency exchange, after-tax	25	40
Earnings from Ongoing Operations	42	(3)
Special items, after-tax	204	160
Net Income	\$ 246	\$ 157

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 six month periods primarily from higher pension income due to an increase in expected returns on higher asset balances.
- Higher income taxes for the three month period primarily due to higher pre-tax income.

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U.S.

Higher income taxes for the six month period primarily due to a \$35 million tax benefit on accelerated pension contributions in the first quarter of 2017 and a \$12 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 22% of PPL's Net Income for the six months ended June 30, 2018 and 34% of PPL's assets at June 30, 2018.

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

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating revenues	\$ 743	\$ 723	\$ 20	\$ 1,615	\$ 1,532	\$ 83
Fuel	189	183	6	403	374	29
Energy purchases	33	29	4	113	98	15
Other operation and maintenance	211	192	19	416	397	19
Depreciation	118	105	13	235	210	25
Taxes, other than income	18	16	2	35	32	3
Total operating expenses	569	525	44	1,202	1,111	91
Other Income (Expense) - net	1	(4)	5	(2)	(8)	6
Interest Expense	69	66	3	136	131	5
Income Taxes	29	49	(20)	65	108	(43)
Net Income	77	79	(2)	210	174	36
Less: Special Items	(9)	—	(9)	(9)	(1)	(8)
Earnings from Ongoing Operations	\$ 86	\$ 79	\$ 7	\$ 219	\$ 175	\$ 44

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 June 30.

Income Statement Line Item	Three Months		Six Months	
	2018	2017	2018	2017
Adjustment to investment, net of tax of \$0, \$0, \$0, \$0 (a)	\$ —	\$ —	\$ —	\$ (1)
Kentucky state tax reform (b)	(9)	—	(9)	—
Total Special Items	\$ (9)	\$ —	\$ (9)	\$ (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.

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 item that management considers special on separate lines and not in their respective Statement of Income line items.

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	Three Months	Six Months
Kentucky Adjusted Gross Margins	\$ 15	\$ 43
Other operation and maintenance	(22)	(23)
Depreciation	(12)	(23)
Taxes, other than income	(5)	(5)
Other Income (Expense) - net	5	5
Interest Expense	(3)	(5)
Income Taxes	29	52
Earnings from Ongoing Operations	7	44
Special items, after-tax	(9)	(8)
Net Income	\$ (2)	\$ 36

- 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 a \$6 million increase in costs related to the timing and scope of generation maintenance outages and increases in other costs that were not individually significant in comparison to the prior year.
- Higher other operation and maintenance expense for the six month period primarily due to a \$7 million increase in costs related to the timing and scope of generation maintenance outages and increases in other costs that were not individually significant in comparison to the prior year.
- Higher depreciation expense for the three month period due to a \$7 million increase related to higher depreciation rates effective July 1, 2017 and a \$5 million increase related to additions to PP&E, net of retirements.
- Higher depreciation expense for the six month period due to a \$12 million increase related to higher depreciation rates effective July 1, 2017 and an \$11 million increase related to additions to PP&E, net of retirements.
- Lower income taxes for the three month period primarily due to a \$16 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 \$9 million decrease related to lower pre-tax income and a \$6 million decrease related to higher amortization of excess deferred income taxes as a result of the TCJA.

Lower income taxes for the six month period primarily due to a \$42 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, and an \$11 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 23% of PPL's Net Income for the six months ended June 30, 2018 and 26% of PPL's assets at June 30, 2018.

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

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	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating revenues	\$ 517	\$ 500	\$ 17	\$ 1,156	\$ 1,073	\$ 83
Energy purchases	115	107	8	276	253	23
Other operation and maintenance	159	140	19	292	303	(11)
Depreciation	88	76	12	173	151	22
Taxes, other than income	22	23	(1)	54	52	2
Total operating expenses	384	346	38	795	759	36
Other Income (Expense) - net	8	6	2	14	6	8
Interest Expense	39	36	3	76	69	7
Income Taxes	27	47	(20)	76	95	(19)
Net Income	75	77	(2)	223	156	67
Less: Special Items (a)	—	—	—	—	—	—
Earnings from Ongoing Operations	\$ 75	\$ 77	\$ (2)	\$ 223	\$ 156	\$ 67

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

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

	Three Months	Six Months
Pennsylvania Adjusted Gross Margins	\$ (5)	\$ 43
Other operation and maintenance	(7)	20
Depreciation	(9)	(15)
Taxes, other than income	—	(1)
Other Income (Expense) - net	2	8
Interest Expense	(3)	(7)
Income Taxes	20	19
Net Income	\$ (2)	\$ 67

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Pennsylvania Adjusted Gross Margins.
- Higher other operation and maintenance expense for the three month period primarily due to \$5 million of nonrecoverable storm expenses and \$4 million of higher bad debt expenses, partially offset by \$5 million of lower vegetation management expenses.
- Lower other operation and maintenance expense for the six month period primarily due to \$17 million of lower corporate service costs allocated to PPL Electric, \$14 million of lower payroll related expenses and \$10 million of lower vegetation management expenses, partially offset by \$12 million of nonrecoverable storm expenses and \$7 million of higher bad debt expenses.
- Higher depreciation expense for the three and six 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.
- 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 \$13 million and lower pre-tax income resulting in \$9 million of lower income taxes.
- Lower income taxes for the six 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 \$38 million, partially offset by higher pre-tax income resulting in \$20 million of higher income taxes.

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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 June 30.

	2018 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 394	\$ 77	\$ 75	\$ (31)	\$ 515
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of (\$37)	140	—	—	—	140
Kentucky state tax reform	—	(9)	—	—	(9)
Total Special Items	140	(9)	—	—	131
Earnings from Ongoing Operations	\$ 254	\$ 86	\$ 75	\$ (31)	\$ 384

	2017 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 148	\$ 79	\$ 77	\$ (12)	\$ 292
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$34	(64)	—	—	—	(64)
Total Special Items	(64)	—	—	—	(64)
Earnings from Ongoing Operations	\$ 212	\$ 79	\$ 77	\$ (12)	\$ 356

	2018 Six Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 591	\$ 210	\$ 223	\$ (57)	\$ 967
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of (\$20)	75	—	—	—	75
Kentucky state tax reform	—	(9)	—	—	(9)
Total Special Items	75	(9)	—	—	66
Earnings from Ongoing Operations	\$ 516	\$ 219	\$ 223	\$ (57)	\$ 901

	2017 Six Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 434	\$ 174	\$ 156	\$ (69)	\$ 695
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$46	(85)	—	—	—	(85)
Adjustment to investment, net of tax of \$0	—	(1)	—	—	(1)
Total Special Items	(85)	(1)	—	—	(86)
Earnings from Ongoing Operations	\$ 519	\$ 175	\$ 156	\$ (69)	\$ 781

Adjusted Gross Margins

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

- "U.K. Adjusted Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed

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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 June 30 as well as the change between periods. The factors that gave rise to the changes are described following the table.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
U.K. Regulated						
U.K. Adjusted Gross Margins	\$ 538	\$ 469	\$ 69	\$ 1,111	\$ 1,005	\$ 106
Impact of changes in foreign currency exchange rates			47			101
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates			\$ 22			\$ 5
Kentucky Regulated						
Kentucky Adjusted Gross Margins						
LG&E	\$ 216	\$ 207	\$ 9	\$ 457	\$ 433	\$ 24
KU	265	259	6	559	540	19
Total Kentucky Adjusted Gross Margins	\$ 481	\$ 466	\$ 15	\$ 1,016	\$ 973	\$ 43
Pennsylvania Regulated						
Pennsylvania Adjusted Gross Margins						
Distribution	\$ 192	\$ 219	\$ (27)	\$ 470	\$ 477	\$ (7)
Transmission	137	115	22	273	223	50
Total Pennsylvania Adjusted Gross Margins	\$ 329	\$ 334	\$ (5)	\$ 743	\$ 700	\$ 43

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K. Adjusted Gross Margins

⁴ K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the three months ended June 30, 2018 compared with 2017, primarily due to \$10 million from the April 1, 2018 price increase and \$12 million of higher volumes.

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the six months ended June 30, 2018 compared with 2017, primarily due to \$10 million from the April 1, 2018 price increase and \$4 million of higher volumes, 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 increased for the three months ended June 30, 2018 compared with 2017, primarily due to higher base rates of \$28 million (\$15 million at LG&E and \$13 million at KU) as new base rates were approved by the KPSC effective July 1, 2017, \$20 million of increased sales volumes related to favorable weather in 2018 (\$8 million at LG&E and \$12 million at KU) and returns on additional environmental capital investments of \$5 million (\$3 million at LG&E and \$2 million at KU), partially offset by \$37 million of estimated income tax savings owed to customers (\$17 million at LG&E and \$20 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.

Kentucky Adjusted Gross Margins increased for the six months ended June 30, 2018 compared with 2017, primarily due to 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, \$51 million of increased sales volumes related to favorable weather in 2018 (\$16 million at LG&E and \$35 million at KU) and returns on additional environmental capital investments of \$10 million (\$6 million at LG&E and \$4 million at KU), partially offset by \$79 million of estimated income tax savings owed to customers (\$37 million at LG&E and \$42 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 June 30, 2018 compared with 2017, primarily due to the \$34 million net of gross receipts tax impact of the estimated income tax savings owed to customers as a result 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 \$7 million of higher electricity sales volumes and \$2 million of returns on additional Smart Meter capital investments.

Distribution Adjusted Gross Margins decreased for the six months ended June 30, 2018 compared with 2017, primarily due to the \$34 million net of gross receipts tax impact of the estimated income tax savings owed to customers as a result of the impact of the U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018, partially offset by \$25 million of higher electricity sales volumes and \$5 million of returns on additional Smart Meter capital investments.

Transmission

Transmission Adjusted Gross Margins increased for the three months ended June 30, 2018 compared with 2017, primarily due to increases of \$17 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and \$5 million as a result of a higher PPL zonal peak load billing factor which affected transmission revenues in the second quarter of 2018.

Transmission Adjusted Gross Margins increased for the six months ended June 30, 2018 compared with 2017, primarily due to an increase of \$39 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and \$11 million as a result of a higher PPL zonal peak load billing factor in the first five months of 2018.

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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 June 30.

	2018 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 574 (c)	\$ 743	\$ 517	\$ 14	\$ 1,848
Operating Expenses					
Fuel	—	189	—	—	189
Energy purchases	—	33	115	—	148
Other operation and maintenance	36	23	43	404	506
Depreciation	—	17	8	248	273
Taxes, other than income	—	—	22	52	74
Total Operating Expenses	36	262	188	704	1,190
Total	\$ 538	\$ 481	\$ 329	\$ (690)	\$ 658

	2017 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 491 (c)	\$ 723	\$ 500	\$ 11	\$ 1,725
Operating Expenses					
Fuel	—	183	—	—	183
Energy purchases	—	29	107	—	136
Other operation and maintenance	22	26	31	353	432
Depreciation	—	16	5	225	246
Taxes, other than income	—	3	23	44	70
Total Operating Expenses	22	257	166	622	1,067
Total	\$ 469	\$ 466	\$ 334	\$ (611)	\$ 658

	2018 Six Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,179 (c)	\$ 1,615	\$ 1,156	\$ 24	\$ 3,974
Operating Expenses					
Fuel	—	403	—	—	403
Energy purchases	—	113	276	—	389
Other operation and maintenance	68	48	69	789	974
Depreciation	—	34	16	492	542
Taxes, other than income	—	1	52	104	157
Total Operating Expenses	68	599	413	1,385	2,465
Total	\$ 1,111	\$ 1,016	\$ 743	\$ (1,361)	\$ 1,509

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	2017 Six Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,050 (c)	\$ 1,532	\$ 1,073	\$ 21	\$ 3,676
Operating Expenses					
Fuel	—	374	—	—	374
Energy purchases	—	98	253	—	351
Other operation and maintenance	45	52	60	745	902
Depreciation	—	32	9	447	488
Taxes, other than income	—	3	51	91	145
Total Operating Expenses	45	559	373	1,283	2,260
Total	\$ 1,005	\$ 973	\$ 700	\$ (1,262)	\$ 1,416

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$10 million and \$20 million for the three and six months ended June 30, 2018 and \$11 million and \$20 million for the three and six months ended June 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 relatively flat, driven by favorable weather and higher base electricity and gas rates effective July 1, 2017, 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 June 30 includes the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues	\$ 517	\$ 500	\$ 17	\$ 1,156	\$ 1,073	\$ 83
Operating Expenses						
Operation						
Energy purchases	115	107	8	276	253	23
Other operation and maintenance	159	139	20	292	302	(10)
Depreciation	88	76	12	173	151	22
Taxes, other than income	22	23	(1)	54	52	2
Total Operating Expenses	384	345	39	795	758	37
Other Income (Expense) - net	7	4	3	13	4	9
Interest Income from Affiliate	1	1	—	1	1	—
Interest Expense	39	36	3	76	69	7
Income Taxes	27	47	(20)	76	95	(19)
Net Income	\$ 75	\$ 77	\$ (2)	\$ 223	\$ 156	\$ 67

Operating Revenues

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

	Three Months	Six Months
Distribution price	\$ 10	\$ 11
Distribution volume	12	32
PLR (a)	9	26
Transmission Formula Rate	22	50
TCJA refund (b)	(37)	(37)
Other	1	1
Total	\$ 17	\$ 83

(a) The increases were primarily due to higher energy volumes as described below.

(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.

Energy Purchases

Energy purchases increased \$8 million and \$23 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to higher PLR volumes.

Other Operation and Maintenance

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

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	Three Months	Six Months
Corporate service costs	\$ (1)	\$ (17)
Vegetation management	(5)	(10)
Storm costs	12	16
Payroll-related costs	(1)	(14)
Act 129	1	(2)
Bad debts	4	7
Smart Meter	2	4
Contractor-related expenses	2	—
Other	6	6
Total	\$ 20	\$ (10)

Depreciation

Depreciation increased \$12 million and \$22 million for the three and six months ended June 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 \$9 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$4 million increase related to higher AFUDC equity rates and a \$3 million increase in non-service cost credits from defined benefit plans.

Interest Expense

Interest expense increased \$3 million and \$7 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to the May 2017 issuance of \$475 million of 3.950% 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 June 30, 2018 compared with 2017 was due to:

	Three Months	Six Months
Change in pre-tax income	\$ (9)	\$ 20
Reduction in U.S. federal income tax rate (a)	(13)	(38)
Amortization of excess deferred income taxes (a)	(3)	(8)
Stock-based compensation	3	5
Other	2	2
Total	\$ (20)	\$ (19)

(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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Income	\$ 75	\$ 77	\$ 223	\$ 156
Special items, gains (losses), after-tax (a)	—	—	—	—

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

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Earnings were flat for the three month period in 2018 compared with 2017, driven primarily by returns on additional capital investments in transmission, offset by higher operation and maintenance expense and higher depreciation expense.

Earnings increased for the six month period in 2018 compared with 2017, driven primarily by returns on additional capital investments in transmission, higher distribution sales volumes and lower operation and maintenance expense, partially offset by higher depreciation 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 on a separate line and not in their respective Statement of Income line items.

	Three Months	Six Months
Pennsylvania Adjusted Gross Margins	\$ (5)	\$ 43
Other operation and maintenance	(8)	19
Depreciation	(9)	(15)
Taxes, other than income	—	(1)
Other Income (Expense) - net	3	9
Interest Expense	(3)	(7)
Income Taxes	20	19
Net Income	<u>\$ (2)</u>	<u>\$ 67</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 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 June 30.

	2018 Three Months			2017 Three Months		
	PA Gross Margins	Other (a)	Operating Income (b)	PA Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 517	\$ —	\$ 517	\$ 500	\$ —	\$ 500
Operating Expenses						
Energy purchases	115	—	115	107	—	107
Other operation and maintenance	43	116	159	31	108	139
Depreciation	8	80	88	5	71	76
Taxes, other than income	22	—	22	23	—	23
Total Operating Expenses	188	196	384	166	179	345
Total	<u>\$ 329</u>	<u>\$ (196)</u>	<u>\$ 133</u>	<u>\$ 334</u>	<u>\$ (179)</u>	<u>\$ 155</u>

	2018 Six Months			2017 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,156	\$ —	\$ 1,156	\$ 1,073	\$ —	\$ 1,073
Operating Expenses						
Energy purchases	276	—	276	253	—	253
Other operation and maintenance	69	223	292	60	242	302
Depreciation	16	157	173	9	142	151
Taxes, other than income	52	2	54	51	1	52
Total Operating Expenses	413	382	795	373	385	758
Total	<u>\$ 743</u>	<u>\$ (382)</u>	<u>\$ 361</u>	<u>\$ 700</u>	<u>\$ (385)</u>	<u>\$ 315</u>

- (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 June 30 includes the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues	\$ 743	\$ 723	\$ 20	\$ 1,615	\$ 1,532	\$ 83
Operating Expenses						
Operation						
Fuel	189	183	6	403	374	29
Energy purchases	33	29	4	113	98	15
Other operation and maintenance	211	192	19	416	397	19
Depreciation	118	105	13	235	210	25
Taxes, other than income	18	16	2	35	32	3
Total Operating Expenses	569	525	44	1,202	1,111	91
Other Income (Expense) - net	1	(4)	5	(2)	(8)	6
Interest Expense	52	50	2	102	99	3
Interest Expense with Affiliate	6	4	2	11	8	3
Income Taxes	31	53	(22)	70	116	(46)
Net Income	\$ 86	\$ 87	\$ (1)	\$ 228	\$ 190	\$ 38

Operating Revenues

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

	Three Months	Six Months
Volumes (a)	\$ 36	\$ 103
Base rates	28	58
ECR	6	13
TCJA refund (b)	(37)	(79)
DSM	(3)	(11)
Fuel and other energy prices	(9)	(7)
Other	(1)	6
Total	\$ 20	\$ 83

(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 \$6 million and \$29 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Energy Purchases

Energy purchases increased \$15 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$23 million increase in natural gas volumes driven by weather in 2018, partially offset by a \$10 million decrease in market prices for natural gas.

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Other Operation and Maintenance

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

	Three Months	Six Months
Timing and scope of generation maintenance outages	\$ 6	\$ 7
Vegetation management	3	3
Gas distribution maintenance and compliance	2	3
Storm costs	2	2
Other	6	4
Total	\$ 19	\$ 19

Depreciation

Depreciation increased \$13 million for the three months ended June 30, 2018 compared with 2017, primarily due to an \$8 million increase related to higher depreciation rates effective July 1, 2017 and a \$4 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$25 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$15 million increase related to higher depreciation rates effective July 1, 2017 and a \$9 million increase related to additions to PP&E, net of retirements.

Income Taxes

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

	Three Months	Six Months
Reduction in U.S. federal income tax rate (a)	\$ (16)	\$ (42)
Amortization of excess deferred income taxes (a)	(6)	(11)
Change in pre-tax income	(9)	(3)
Kentucky state tax reform (b)	9	9
Other	—	1
Total	\$ (22)	\$ (46)

(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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Income	\$ 86	\$ 87	\$ 228	\$ 190
Special items, gains (losses), after-tax	(9)	—	(9)	(1)

Excluding special items, earnings increased for the three and six month period in 2018 compared with 2017, primarily due to higher base electricity and gas rates effective July 1, 2017 and higher sales volumes driven by favorable weather, 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 and items that management considers special on separate lines and not in their respective Statement of Income line items.

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	Three Months	Six Months
Adjusted Gross Margins	\$ 15	\$ 43
Other operation and maintenance	(22)	(23)
Depreciation	(12)	(23)
Taxes, other than income	(5)	(5)
Other Income (Expense) - net	5	5
Interest Expense	(4)	(6)
Income Taxes	31	55
Special items, gains (losses), after-tax (a)	(9)	(8)
Net Income	\$ (1)	\$ 38

(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 June 30.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 743	\$ —	\$ 743	\$ 723	\$ —	\$ 723
Operating Expenses						
Fuel	189	—	189	183	—	183
Energy purchases	33	—	33	29	—	29
Other operation and maintenance	23	188	211	26	166	192
Depreciation	17	101	118	16	89	105
Taxes, other than income	—	18	18	3	13	16
Total Operating Expenses	262	307	569	257	268	525
Total	\$ 481	\$ (307)	\$ 174	\$ 466	\$ (268)	\$ 198

	2018 Six Months			2017 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,615	\$ —	\$ 1,615	\$ 1,532	\$ —	\$ 1,532
Operating Expenses						
Fuel	403	—	403	374	—	374
Energy purchases	113	—	113	98	—	98
Other operation and maintenance	48	368	416	52	345	397
Depreciation	34	201	235	32	178	210
Taxes, other than income	1	34	35	3	29	32
Total Operating Expenses	599	603	1,202	559	552	1,111
Total	\$ 1,016	\$ (603)	\$ 413	\$ 973	\$ (552)	\$ 421

(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 June 30 includes the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues						
Retail and wholesale	\$ 331	\$ 320	\$ 11	\$ 738	\$ 694	\$ 44
Electric revenue from affiliate	4	4	—	16	21	(5)
Total Operating Revenues	335	324	11	754	715	39
Operating Expenses						
Operation						
Fuel	72	69	3	151	149	2
Energy purchases	28	25	3	104	89	15
Energy purchases from affiliate	2	3	(1)	8	5	3
Other operation and maintenance	93	86	7	182	171	11
Depreciation	49	45	4	97	89	8
Taxes, other than income	9	9	—	18	17	1
Total Operating Expenses	253	237	16	560	520	40
Other Income (Expense) - net	(1)	1	(2)	(2)	(3)	1
Interest Expense	19	19	—	37	36	1
Income Taxes	12	27	(15)	33	60	(27)
Net Income	\$ 50	\$ 42	\$ 8	\$ 122	\$ 96	\$ 26

Operating Revenues

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

	Three Months	Six Months
Volumes (a)	\$ 16	\$ 44
Base rates	16	32
ECR	2	7
TCJA refund (b)	(17)	(37)
Fuel and other energy prices	(7)	(10)
DSM	(1)	(5)
Other	2	8
Total	\$ 11	\$ 39

(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 \$3 million for the three months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

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Energy Purchases

Energy purchases increased \$3 million for the three months ended June 30, 2018 compared with 2017, primarily due to an increase in natural gas volumes driven by weather in 2018.

Energy purchases increased \$15 million for the six months ended June 30, 2018 compared with 2017, primarily due to a \$23 million increase in natural gas volumes driven by weather in 2018, partially offset by a \$10 million decrease in market prices for natural gas.

Other Operation and Maintenance

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

	Three Months	Six Months
Gas distribution maintenance and compliance	\$ 2	\$ 3
Timing and scope of generation maintenance outages	1	2
Storm costs	2	2
Other	2	4
Total	\$ 7	\$ 11

Depreciation

Depreciation increased \$4 million for the three months ended June 30, 2018 compared with 2017, due to a \$2 million increase related to higher depreciation rates effective July 1, 2017 and a \$2 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$8 million for the six months ended June 30, 2018 compared with 2017, due to a \$4 million increase related to higher depreciation rates effective July 1, 2017 and a \$4 million increase related to additions to PP&E, net of retirements.

Income Taxes

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

	Three Months	Six Months
Reduction in U.S. federal income tax rate (a)	\$ (9)	\$ (22)
Amortization of excess deferred income taxes (a)	(3)	(5)
Change in pre-tax income	(3)	—
Total	\$ (15)	\$ (27)

(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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Income	\$ 50	\$ 42	\$ 122	\$ 96
Special items, gains (losses), after-tax (a)	—	—	—	—

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

Earnings increased for the three and six month periods in 2018 compared with 2017, primarily due to higher base electricity and gas rates effective July 1, 2017 and higher sales volumes driven by favorable weather, partially offset by higher other operation and maintenance expense and higher depreciation expense.

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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	Six Months
Adjusted Gross Margins	\$ 9	\$ 24
Other operation and maintenance	(7)	(12)
Depreciation	(5)	(10)
Taxes, other than income	(2)	(3)
Other Income (Expense) - net	(2)	1
Interest Expense	—	(1)
Income Taxes	15	27
Net Income	<u>\$ 8</u>	<u>\$ 26</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 June 30.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 335	\$ —	\$ 335	\$ 324	\$ —	\$ 324
Operating Expenses						
Fuel	72	—	72	69	—	69
Energy purchases, including affiliate	30	—	30	28	—	28
Other operation and maintenance	10	83	93	10	76	86
Depreciation	7	42	49	8	37	45
Taxes, other than income	—	9	9	2	7	9
Total Operating Expenses	119	134	253	117	120	237
Total	<u>\$ 216</u>	<u>\$ (134)</u>	<u>\$ 82</u>	<u>\$ 207</u>	<u>\$ (120)</u>	<u>\$ 87</u>

	2018 Six Months			2017 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 754	\$ —	\$ 754	\$ 715	\$ —	\$ 715
Operating Expenses						
Fuel	151	—	151	149	—	149
Energy purchases, including affiliate	112	—	112	94	—	94
Other operation and maintenance	19	163	182	20	151	171
Depreciation	15	82	97	17	72	89
Taxes, other than income	—	18	18	2	15	17
Total Operating Expenses	297	263	560	282	238	520
Total	<u>\$ 457</u>	<u>\$ (263)</u>	<u>\$ 194</u>	<u>\$ 433</u>	<u>\$ (238)</u>	<u>\$ 195</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 June 30 includes the following results.

	Three Months			Six Months		
	2018	2017	\$ Change	2018	2017	\$ Change
Operating Revenues						
Retail and wholesale	\$ 412	\$ 403	\$ 9	\$ 877	\$ 838	\$ 39
Electric revenue from affiliate	2	3	(1)	8	5	3
Total Operating Revenues	414	406	8	885	843	42
Operating Expenses						
Operation						
Fuel	117	114	3	252	225	27
Energy purchases	5	4	1	9	9	—
Energy purchases from affiliate	4	4	—	16	21	(5)
Other operation and maintenance	112	100	12	217	208	9
Depreciation	70	61	9	138	121	17
Taxes, other than income	9	7	2	17	15	2
Total Operating Expenses	317	290	27	649	599	50
Other Income (Expense) - net	3	(2)	5	—	(4)	4
Interest Expense	25	24	1	50	48	2
Income Taxes	14	34	(20)	38	73	(35)
Net Income	\$ 61	\$ 56	\$ 5	\$ 148	\$ 119	\$ 29

Operating Revenues

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

	Three Months	Six Months
Volumes (a)	\$ 18	\$ 56
Base rates	12	26
ECR	4	6
Fuel and other energy prices	(2)	2
TCJA refund (b)	(20)	(42)
DSM	(2)	(6)
Other	(2)	—
Total	\$ 8	\$ 42

(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 \$3 million and \$27 million for the three and six months ended June 30, 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

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Other Operation and Maintenance

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

	Three Months	Six Months
Timing and scope of generation maintenance outages	\$ 5	\$ 6
Vegetation management	3	4
Other	4	(1)
Total	<u>\$ 12</u>	<u>\$ 9</u>

Depreciation

Depreciation increased \$9 million for the three months ended June 30, 2018 compared with 2017, primarily due to a \$6 million increase related to higher depreciation rates effective July 1, 2017 and a \$2 million increase related to additions to PP&E, net of retirements.

Depreciation increased \$17 million for the six months ended June 30, 2018 compared with 2017, primarily due to an \$11 million increase related to higher depreciation rates effective July 1, 2017 and a \$5 million increase related to additions to PP&E, net of retirements.

Income Taxes

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

	Three Months	Six Months
Reduction in U.S. federal income tax rate (a)	\$ (10)	\$ (26)
Amortization of excess deferred income taxes (a)	(3)	(6)
Change in pre-tax income	(6)	(2)
Other	(1)	(1)
Total	<u>\$ (20)</u>	<u>\$ (35)</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.

Earnings

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net Income	\$ 61	\$ 56	\$ 148	\$ 119
Special items, gains (losses), after-tax	—	—	—	(1)

Earnings increased for the three and six month periods in 2018 compared with 2017, primarily due to higher base electricity rates effective July 1, 2017 and higher sales volumes driven by favorable weather, 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.

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	Three Months	Six Months
Adjusted Gross Margins	\$ 6	\$ 19
Other operation and maintenance	(15)	(12)
Depreciation	(7)	(13)
Taxes, other than income	(3)	(2)
Other Income (Expense) - net	5	3
Interest Expense	(1)	(2)
Income Taxes	20	35
Special items, gains (losses), after-tax (a)	—	1
Net Income	\$ 5	\$ 29

(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 June 30.

	2018 Three Months			2017 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 414	\$ —	\$ 414	\$ 406	\$ —	\$ 406
Operating Expenses						
Fuel	117	—	117	114	—	114
Energy purchases, including affiliate	9	—	9	8	—	8
Other operation and maintenance	13	99	112	16	84	100
Depreciation	10	60	70	8	53	61
Taxes, other than income	—	9	9	1	6	7
Total Operating Expenses	149	168	317	147	143	290
Total	\$ 265	\$ (168)	\$ 97	\$ 259	\$ (143)	\$ 116

	2018 Six Months			2017 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 885	\$ —	\$ 885	\$ 843	\$ —	\$ 843
Operating Expenses						
Fuel	252	—	252	225	—	225
Energy purchases, including affiliate	25	—	25	30	—	30
Other operation and maintenance	29	188	217	32	176	208
Depreciation	19	119	138	15	106	121
Taxes, other than income	1	16	17	1	14	15
Total Operating Expenses	326	323	649	303	296	599
Total	\$ 559	\$ (323)	\$ 236	\$ 540	\$ (296)	\$ 244

(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&E</u>	<u>KU</u>
<u>June 30, 2018</u>					
Cash and cash equivalents	\$ 852	\$ 489	\$ 39	\$ 19	\$ 20
Short-term debt	1,864	—	316	183	133
Long-term debt due within one year	203	—	203	194	9
Notes payable with affiliates	—	—	99	—	—
<u>December 31, 2017</u>					
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 June 30, 2018, \$2 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 six month periods ended June 30, and the changes between periods, were as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
<u>2018</u>					
Operating activities	\$ 1,325	\$ 364	\$ 440	\$ 255	\$ 274
Investing activities	(1,649)	(521)	(564)	(296)	(266)
Financing activities	695	597	133	45	(3)
<u>2017</u>					
Operating activities	\$ 790	\$ 279	\$ 511	\$ 264	\$ 257
Investing activities	(1,385)	(824)	(355)	(177)	(177)
Financing activities	711	591	(150)	(85)	(75)
<u>Change - Cash Provided (Used)</u>					
Operating activities	\$ 535	\$ 85	\$ (71)	\$ (9)	\$ 17
Investing activities	(264)	303	(209)	(119)	(89)
Financing activities	(16)	6	283	130	72

Operating Activities

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

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	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Net income	\$ 272	\$ 67	\$ 38	\$ 26	\$ 29
Non-cash components	(279)	(25)	(46)	(32)	(51)
Working capital	129	36	46	59	80
Defined benefit plan funding	346	(4)	(93)	(54)	(31)
Other operating activities	67	11	(16)	(8)	(10)
Total	\$ 535	\$ 85	\$ (71)	\$ (9)	\$ 17

(PPL)

PPL's cash provided by operating activities in 2018 increased \$535 million compared with 2017.

- Net income increased \$272 million between periods and included a decrease in non-cash charges of \$279 million. The decrease in non-cash charges was primarily due to an increase in unrealized gains on hedging activities, an increase in the U.K. net periodic defined benefit credits (primarily due to an increase in expected returns on higher asset balances) and a decrease in deferred income tax expense (primarily due to lower income taxes from tax benefits related to accelerated pension contributions to the U.K. pension plans in 2017 and book versus tax plant timing differences and net operating losses at EU) partially offset by an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates effective July 1, 2017 at LG&E and KU and the impact of foreign currency exchange rates at WPD).
- The \$129 million increase in cash from changes in working capital was primarily due to a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms) and an increase in taxes payable (primarily due to an increase in current income tax benefits in 2017).
- Defined benefit plan funding was \$346 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 \$85 million compared with 2017.

- Net income increased \$67 million between the periods and included a decrease in non-cash charges of \$25 million. The decrease in non-cash charges was primarily driven by a \$31 million decrease in deferred income tax expense (primarily due to book versus tax plant timing differences and net operating losses).
- The \$36 million increase in cash from changes in working capital was primarily due to a \$24 million increase in accounts receivable and a \$13 million increase in unbilled revenues due to an increase in sales volumes and returns on additional capital investments.
- The \$11 million increase in cash provided by other operating activities was primarily due to an increase in non-current regulatory liabilities (primarily due to a \$37 million TCJA liability) partially offset by an increase in non-current regulatory assets (primarily due to \$21 million of storm costs).

(LKE)

LKE's cash provided by operating activities in 2018 decreased \$71 million compared with 2017.

- Net income increased \$38 million between the periods and included a decrease in non-cash charges of \$46 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 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), a

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decrease in other current liabilities (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 \$93 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 \$9 million compared with 2017.

- Net income increased \$26 million between the periods and included a decrease in non-cash charges of \$32 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) 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 \$54 million higher in 2018.
- The decrease in cash from LG&E's other operating activities was primarily driven by an increase in ARO expenditures.

(KU)

KU's cash provided by operating activities in 2018 increased \$17 million compared with 2017.

- Net income increased \$29 million between the periods and included a decrease in non-cash charges of \$51 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), 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 other current liabilities (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 \$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 six months ended June 30, 2018 compared with 2017 was as follows.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Decrease (Increase)	\$ (154)	\$ 32	\$ (209)	\$ (119)	\$ (89)

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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 PPL Electric and WPD. 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. 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 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.

Financing Activities

(All Registrants)

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

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ (200)	\$ (72)	\$ 100	\$ 100	\$ —
Debt issuance/retirement with affiliate, net			250		
Stock issuances/redemptions, net	(30)				
Dividends	(29)	(68)		41	(26)
Capital contributions/distributions, net		(150)	57	43	45
Change in short-term debt, net	234	295	(1)	(54)	53
Notes payable with affiliate			(122)		
Other financing activities	9	1	(1)		
Total	\$ (16)	\$ 6	\$ 283	\$ 130	\$ 72

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 June 30, 2018, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,350	\$ —	\$ 1,019	\$ 331
PPL Electric Credit Facility	650	—	1	649
LKE Credit Facility	75	—	—	75
LG&E Credit Facility	700	200	183	317
KU Credit Facilities	598	—	331	267
Total LKE	1,373	200	514	659
Total U.S. Credit Facilities (a)	\$ 3,373	\$ 200	\$ 1,534	\$ 1,639
Total U.K. Credit Facilities (b)	£ 1,185	£ 413	£ —	£ 772

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- 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%.
- The amounts borrowed at June 30, 2018 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings which equated to \$349 million. The unused capacity reflects the USD-denominated borrowing amount borrowed in GBP of £150 million as of the date borrowed. At June 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	\$ 99	\$ —	\$ 201
LG&E Money Pool (a)	500	—	183	317
KU Money Pool (a)	500	—	133	367

- (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 June 30, 2018:

	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 999	\$ 1
PPL Electric	650	—	650
LG&E	350	183	167
KU	350	133	217
Total LKE	700	316	384
Total PPL	\$ 2,350	\$ 1,315	\$ 1,035

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. Settlement of these forward sale agreements will occur no later than November

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2019. PPL will not receive any proceeds or issue any shares of common stock until settlement of the forward sale agreements. PPL intends to use any net proceeds that it receives upon settlement for general corporate purposes. See Note 8 to the Financial Statements for additional information.

ATM Program

For the three and six months ended June 30, 2018, PPL issued 1.2 million and 4.2 million shares of common stock and received proceeds of \$34 million and \$119 million. See Note 8 to the Financial Statements for further discussion of the ATM program.

Common Stock Dividends

In May 2018, PPL declared a quarterly common stock dividend, payable July 2, 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:

(PL)

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.

(PPL and PPL Electric)

In June 2018, Moody's and S&P assigned ratings of A1 and A to PPL Electric's \$400M 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.

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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 June 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 precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

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

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The following interest rate hedges were outstanding at June 30, 2018.

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through
PPL				
Cash flow hedges				
Cross-currency swaps (c)	\$ 702	\$ 101	\$ (81)	2028
Economic hedges				
Interest rate swaps (d)	147	(21)	(2)	2033
LKE				
Economic hedges				
Interest rate swaps (d)	147	(21)	(2)	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	147	(21)	(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 June 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 June 30, 2018 is shown below.

	10% Adverse Movement in Rates
PPL	\$ 658
PPL Electric	193
LKE	177
LG&E	63
KU	94

Foreign Currency Risk (PPL)

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

The following foreign currency hedges were outstanding at June 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)	£ 1,992	\$ 110	\$ (244)	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.

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(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 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 RII0-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 RII0-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 \$143 million for the six months ended June 30, 2018, which primarily reflected a \$227 million decrease to PP&E, a \$45 million decrease to goodwill and a \$2 million increase to other net liabilities, partially offset by a \$131 million decrease to long-term debt. Changes in this exchange rate resulted in a foreign currency translation gain of \$207 million for the six months ended June 30, 2017, which primarily reflected a \$367 million increase to PP&E and \$79 million increase to goodwill partially offset by a \$216 million increase to long-term debt and a \$23 million increase to other net liabilities. The impact of foreign currency translation is recorded in AOCI.

Related Party Transactions *(All Registrants)*

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

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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 Note 10 to the Financial Statements for a discussion of the more significant environmental matters including Legal Matters, NAAQS, Climate Change, CCRs, and ELGs. Additionally, see "Item 1. Business - Environmental Matters" in the Registrants' 2017 Form 10-K for additional information.

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.

	<u>PPL</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
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
Rate ROs	X		X	X	X
Revenue Recognition - Unbilled Revenue			X	X	X

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of June 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' second fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding pending administrative and judicial proceedings involving tax litigation, regulatory, environmental and other matters, 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 6. Exhibits

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

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- 1(a) - Final Terms, dated May 11, 2018, of Western Power Distribution (West Midlands) plc £30,000,000 RPI Index Linked Senior Unsecured Notes due March 2028
- 4(a) - Supplemental Indenture No. 20, dated as of June 1, 2018, of PPL Electric Utilities Corporation to The Bank of New York Mellon, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2018)
- 4(b) - Officer's Certificate, dated June 14, 2018, pursuant to Section 201 and Section 301 of the Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2018)
- 10(a) - Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(b) - Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and Barclays Bank PLC (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(c) - Additional Confirmation of Forward Sale Transaction, dated May 10, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(d) - Additional Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and Barclays Bank PLC (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- *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 June 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 June 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

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01.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

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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: August 7, 2018

/s/ Stephen K. Breininger

Stephen K. Breininger
Vice President and Controller
(Principal Accounting Officer)

PPL Electric Utilities Corporation

(Registrant)

Date: August 7, 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: August 7, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer and Principal Accounting
Officer)

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("MiFID II"); or (ii) a customer within the meaning of Directive 2002/92/EC ("Insurance Mediation Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

11 May 2018

Western Power Distribution (West Midlands) plc

Issue of GBP 30,000,000 RPI Index Linked Senior Unsecured Notes due May 2028

**under the £3,000,000,000
Euro Medium Term Note Programme**

**Part A
Contractual Terms**

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated 15 September 2017 and the supplement dated 15 March 2018, which together constitute a base prospectus (the **Prospectus**) for the purposes of the Prospectus Directive (Directive 2003/71/EC), as amended (the **Prospectus Directive**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with such Prospectus as so supplemented. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus as so supplemented. The Prospectus and the supplemental Prospectus are available for viewing at www.westernpower.co.uk and during normal business hours at Avonbank, Feeder Road, Bristol BS2 0TB and copies may be obtained from Avonbank, Feeder Road, Bristol BS2 0TB. The Prospectus and (in the case of Notes listed and admitted to trading on the regulated market of the London Stock Exchange) the applicable Final Terms will also be published on the website of the London Stock Exchange: www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

1	Issuer:	Western Power Distribution (West Midlands) plc
2	(i) Series Number:	2018-2
	(ii) Tranche Number:	1
	(iii) Date on which the Notes will be consolidated and form a single Series	Not Applicable
3	Specified Currency or Currencies:	Pounds Sterling ("£")
4	Aggregate Nominal Amount:	
	(i) Series:	£ 30,000,000
	(ii) Tranche:	£ 30,000,000
5	(i) Issue Price of Tranche:	102.655 per cent. of the Aggregate Nominal Amount

6	(i)	Specified Denominations:	£100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. No Notes in definitive form will be issued with a denomination of integral multiples above £199,000.
	(ii)	Calculation Amount:	£1,000
7	(i)	Issue Date:	16 May 2018
	(ii)	Interest Commencement Date:	Issue Date
8		Maturity Date:	16 May 2028
9		Interest Basis:	Index Linked Interest (further particulars specified below)
10		Redemption Basis:	Subject to any purchase and cancellation or early redemption, the Notes will be redeemed on the Maturity Date at 100 per cent. of their nominal amount
11		Change of Interest Basis or Redemption/ Payment Basis:	Not Applicable
12		Put/Call Options:	Restructuring Put Option (further particulars specified in paragraph 22)
13		Date approval by Committee of the Board of Directors for issuance of Notes obtained:	8 May 2018

Provisions Relating to Interest (if any) Payable

14		Fixed Rate Note Provisions	Applicable
	(i)	Rate of Interest:	0.01 per cent. per annum payable semi-annually in arrear (as adjusted in accordance with Condition 7(a) (Application of the Index Ratio))
	(ii)	Interest Payment Dates:	16 May and 16 November in each year from and including 16 November 2018 to and including the Maturity Date
	(iii)	Fixed Coupon Amount:	£0.050 per Calculation Amount per semi-annual period (as adjusted in accordance with Condition 7(a) (Application of the Index Ratio))
	(iv)	Broken Amount:	Not Applicable
	(v)	Day Count Fraction:	Actual/Actual ICMA
	(vi)	Determination Dates:	16 May and 16 November in each year
15		Floating Rate Note Provisions	Not Applicable
16		Zero Coupon Note Provisions	Not Applicable
17		Index Linked Interest Note Provisions	Applicable
	(i)	Rate of Interest:	Fixed, calculated in accordance with paragraph 14 above
	(ii)	Minimum Indexation Factor:	Not Applicable
	(iii)	Maximum Indexation Factor:	Not Applicable
	(iv)	Base Index Figure:	278.19677 calculated as an interpolation between RPI figures in February 2018 and March 2018
	(v)	Limited Indexation Month(s):	Not Applicable
	(vi)	Reference Gilt:	1.25 per cent. Index-Linked Treasury Stock due 2027
	(vii)	Index Figure applicable	3 months lag
18		Ratings Downgrade Rate Adjustment	Not Applicable

Provisions Relating to Redemption

19		Index Linked Redemption Provisions	Applicable
	(i)	Minimum Indexation Factor:	Not Applicable
	(ii)	Maximum Indexation Factor:	Not Applicable

	(iii)	Base Index Figure:	278.19677 calculated as an interpolation between RPI figures in February 2018 and March 2018
	(iv)	Reference Gilt:	1.25 per cent. Index-Linked Treasury Stock due 2027
	(v)	Index Figure applicable	3 months lag
	(vi)	Redeemable in part:	Not Applicable
20		Issuer Call	Not Applicable
21		Investor Put	Applicable (Condition 6(g) (<i>Redemption at the Option of Noteholders on a Restructuring Event</i>) applies)
	(i)	Optional Redemption Date(s):	On the Put Date (as specified in the relevant Put Event Notice) (where (Condition 6(g) (Redemption at the Option of Noteholders on a Restructuring Event) applies)
	(ii)	Notice Period:	As per Condition 6(g) (Redemption at the Option of Noteholders on a Restructuring Event)
	(iii)	Optional Redemption Amount(s):	£1,000 (as adjusted in accordance with Condition 7(a) (Application of the Index Ratio) and paragraph 19 above) per Calculation Amount
22		Restructuring Put Option	Applicable 6(g) (Redemption at the Option of the Noteholders on a Restructuring Event) applies
	(i)	Optional Redemption Amount(s):	£1,000 (as adjusted in accordance with Condition 7(a) (<i>Application of the Index Ratio</i>) and paragraph 19 above) per Calculation Amount
23		Final Redemption Amount:	£1,000 (as adjusted in accordance with Condition 7(a) (Application of the Index Ratio) and paragraph 19 above) per Calculation Amount
24		Early Redemption Amount payable on redemption for taxation reasons or on event of default	£1,000 (as adjusted in accordance with Condition 7(a) (Application of the Index Ratio) and paragraph 19 above) per Calculation Amount
General Provisions Applicable to the Notes			
25		Form of Notes:	Bearer
	(i)	if issued in Bearer form:	Temporary Global Note exchangeable for a permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the permanent Global Note.
		New Global Note/NSS:	Yes (NGN)
26		Additional Financial Centre(s) or other special provisions relating to payment dates:	Not Applicable
27		Talons for future Coupons to be attached to Definitive Notes:	No

Signed on behalf of
Western Power Distribution (West Midlands) plc

By: I R WILLIAMS

Part B
Other Information

1 Listing and Admission to Trading

- | | | |
|------|---|--|
| (i) | Listing and admission to trading: | Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market and listing on the Official List of the UK Listing Authority and this is expected to be effective from 16 May 2018 |
| (ii) | Estimate of total expenses related to admission to trading: | £1750 |

2 Ratings

- | | |
|----------|--|
| Ratings: | The Notes to be issued have been rated:

Baa1 (Stable) by Moody's Investors Service Limited (Moody's);
and

A- (Stable) by Standard & Poor's Credit Market Services Europe Limited (S&P)

Each of Moody's and S&P is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) |
|----------|--|

3 Interests of Natural and Legal Persons Involved in the Issue

Save for any fees payable to the Managers, so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer.

Reasons for the Offer, Estimated Net Proceeds and Total Expenses

- | | | |
|-------|---------------------------|--|
| (i) | Reasons for the offer | See the section entitled "Use of proceeds" in the Prospectus |
| (ii) | Estimated net proceeds: | Not Applicable |
| (iii) | Estimated total expenses: | Not Applicable |

5 Yield (Fixed Rate Notes only)

Indication of yield:	0.252 per cent.
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6 Operational Information

- | | | |
|-------|--|--------------------------|
| (i) | ISIN Code: | XS1821535678 |
| (ii) | Common Code: | 182153567 |
| (iii) | Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): | Not Applicable |
| (iv) | Delivery: | Delivery against payment |
| (v) | Names and addresses of additional Paying Agent(s) (if any): | Not applicable |

- (vi) Intended to be held in a manner which would allow Eurosystem eligibility: Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the international central securities depositories (ICSD) as common safekeeper and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, that is, held under the NSS, and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank (the ECB) being satisfied that Eurosystem eligibility criteria have been met.

7 **Distribution**

- | | | |
|-------|---|---|
| (i) | Method of distribution: | Non-syndicated |
| (ii) | If syndicated, names and addresses of Managers): | Not Applicable |
| (iii) | Date of Dealer Agreement: | 15 September 2017 |
| (iv) | Stabilisation Manager(s) (if any): | Not Applicable |
| (v) | If non-syndicated, name and address of relevant Dealer: | RBC Europe Limited
Riverbank House
2 Swan Lane
London EC4R 3BF |
| (vi) | U.S. Selling Restrictions: | Reg. S Compliance Category 2; TEFRA D not applicable |
| (vii) | Prohibition of Sales to EEA Retail Investors: | Applicable |

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND
PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	Six Months Ended June 30,		Years Ended December 31,			
	2018	2017	2016	2015 (a)	2014 (a)	2013 (a)
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 1,226	\$ 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>1,226</u>	<u>1,913</u>	<u>2,549</u>	<u>2,067</u>	<u>2,129</u>	<u>1,728</u>
Total fixed charges as below						
	486	927	917	1,054	1,095	1,096
Less:						
Capitalized interest	4	4	4	11	11	11
Interest expense and fixed charges related to discontinued operations	—	—	—	150	186	235
Total fixed charges included in Income from Continuing Operations Before Income Taxes	<u>482</u>	<u>923</u>	<u>913</u>	<u>893</u>	<u>898</u>	<u>850</u>
Total earnings	<u>\$ 1,708</u>	<u>\$ 2,836</u>	<u>\$ 3,462</u>	<u>\$ 2,960</u>	<u>\$ 3,027</u>	<u>\$ 2,578</u>
Fixed charges, as defined:						
Interest charges (b)	\$ 481	\$ 912	\$ 900	\$ 1,038	\$ 1,073	\$ 1,058
Estimated interest component of operating rentals	5	15	17	16	22	38
Total fixed charges (c)	<u>\$ 486</u>	<u>\$ 927</u>	<u>\$ 917</u>	<u>\$ 1,054</u>	<u>\$ 1,095</u>	<u>\$ 1,096</u>
Ratio of earnings to fixed charges (d)	<u>3.5</u>	<u>3.1</u>	<u>3.8</u>	<u>2.8</u>	<u>2.8</u>	<u>2.4</u>

(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)

	Six Months Ended June 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 299	\$ 575	\$ 552	\$ 416	\$ 423	\$ 317
Total fixed charges as below	82	153	141	139	131	117
Total earnings	<u>\$ 381</u>	<u>\$ 728</u>	<u>\$ 693</u>	<u>\$ 555</u>	<u>\$ 554</u>	<u>\$ 434</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 80	\$ 149	\$ 137	\$ 135	\$ 127	\$ 113
Estimated interest component of operating rentals	2	4	4	4	4	4
Total fixed charges (b)	<u>\$ 82</u>	<u>\$ 153</u>	<u>\$ 141</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>
Ratio of earnings to fixed charges (c)	<u>4.6</u>	<u>4.8</u>	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>

(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&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	Six Months Ended June 30,		Years Ended December 31,			
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	\$ 298	\$ 691	\$ 686	\$ 603	\$ 553	\$ 551
Adjustment to reflect earnings from equity method investments on a cash basis	—	1	(1)	(1)	(1)	(1)
	<u>298</u>	<u>692</u>	<u>685</u>	<u>602</u>	<u>552</u>	<u>550</u>
Total fixed charges as below	<u>118</u>	<u>224</u>	<u>223</u>	<u>189</u>	<u>173</u>	<u>151</u>
Total earnings	<u>\$ 416</u>	<u>\$ 916</u>	<u>\$ 908</u>	<u>\$ 791</u>	<u>\$ 725</u>	<u>\$ 701</u>
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 113	\$ 215	\$ 214	\$ 181	\$ 167	\$ 145
Estimated interest component of operating rentals	5	9	9	8	6	6
Total fixed charges	<u>\$ 118</u>	<u>\$ 224</u>	<u>\$ 223</u>	<u>\$ 189</u>	<u>\$ 173</u>	<u>\$ 151</u>
Ratio of earnings to fixed charges	<u>3.5</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)

	Six Months Ended June 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 155	\$ 344	\$ 329	\$ 299	\$ 272	\$ 257
Total fixed charges as below	40	76	76	61	51	36
Total earnings	\$ 195	\$ 420	\$ 405	\$ 360	\$ 323	\$ 293
Fixed charges, as defined:						
Interest charges (a) (b)	\$ 37	\$ 71	\$ 71	\$ 57	\$ 49	\$ 34
Estimated interest component of operating rentals	3	5	5	4	2	2
Total fixed charges	\$ 40	\$ 76	\$ 76	\$ 61	\$ 51	\$ 36
Ratio of earnings to fixed charges	4.9	5.5	5.3	5.9	6.3	8.1

- (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)

	Six Months Ended June 30,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
Earnings, as defined:						
Income Before Income Taxes	\$ 186	\$ 418	\$ 428	\$ 374	\$ 355	\$ 360
Adjustment to reflect earnings from equity method investments on a cash basis.		1	(1)	(1)	(1)	(1)
	<u>186</u>	<u>419</u>	<u>427</u>	<u>373</u>	<u>354</u>	<u>359</u>
Total fixed charges as below	<u>52</u>	<u>100</u>	<u>100</u>	<u>86</u>	<u>80</u>	<u>73</u>
Total earnings	<u>\$ 238</u>	<u>\$ 519</u>	<u>\$ 527</u>	<u>\$ 459</u>	<u>\$ 434</u>	<u>\$ 432</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 50	\$ 96	\$ 96	\$ 82	\$ 77	\$ 70
Estimated interest component of operating rentals	2	4	4	4	3	3
Total fixed charges	<u>\$ 52</u>	<u>\$ 100</u>	<u>\$ 100</u>	<u>\$ 86</u>	<u>\$ 80</u>	<u>\$ 73</u>
Ratio of earnings to fixed charges	<u>4.6</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

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: August 7, 2018

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

CERTIFICATION

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: August 7, 2018

/s/ Vincent Sorgi

Vincent Sorgi
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

CERTIFICATION

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: August 7, 2018

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

CERTIFICATION

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: August 7, 2018

/s/ Marlene C. Beers

Marlene C. Beers

Vice President - Finance and Regulatory Affairs and
Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

CERTIFICATION

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: August 7, 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

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: August 7, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

CERTIFICATION

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: August 7, 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

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: August 7, 2018

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Louisville Gas and Electric Company

CERTIFICATION

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: August 7, 2018

/s/ Paul W. Thompson

Paul W. Thompson
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)
Kentucky Utilities Company

CERTIFICATION

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: August 7, 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 JUNE 30, 2018

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended June 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: August 7, 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 JUNE 30, 2018

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended June 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: August 7, 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 JUNE 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 June 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: August 7, 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 JUNE 30, 2018

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended June 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: August 7, 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 JUNE 30, 2018

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended June 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: August 7, 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
mished to the Securities and Exchange Commission or its staff upon request.

SEC Form 10-Q

September 30, 2018

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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	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
33-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

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

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

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

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

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

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

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

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

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

PPL Corporation	Common stock, \$0.01 par value, 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. However, information on this website does not constitute a part of this Form 10-Q.

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

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

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global. 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.

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LKE - 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.

CR(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.

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- 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.

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'BOR - London Interbank Offered Rate.

cf - 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 Volatility 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.

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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 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.

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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.

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... 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.

ART I. FINANCIAL INFORMATION**EM 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
Operating Revenues	\$ 1,872	\$ 1,845	\$ 5,846	\$ 5,521
Operating Expenses				
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
Operating Income	686	736	2,195	2,152
Other Income (Expense) - net	106	(35)	297	(112)
Interest Expense	244	230	718	669
Income Before Income Taxes	548	471	1,774	1,371
Income Taxes	103	116	362	321
Net Income	\$ 445	\$ 355	\$ 1,412	\$ 1,050
Earnings Per Share of Common Stock:				
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
Dividends Declared Per Share of Common Stock	\$ 0.41	\$ 0.395	\$ 1.23	\$ 1.185
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
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
Net income	\$ 445	\$ 355	\$ 1,412	\$ 1,050
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of \$0, \$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
Total other comprehensive income (loss)	(153)	20	(226)	275
Comprehensive income	\$ 292	\$ 375	\$ 1,186	\$ 1,325

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

PPL Corporation and Subsidiaries

(unaudited)

(Millions of Dollars)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
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>
Cash Flows from Investing Activities		
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>
Cash Flows from Financing Activities		
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>
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	(9)	7
Net Increase in Cash, Cash Equivalents and Restricted Cash	353	331
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>

Supplemental Disclosures of Cash Flow Information

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
Assets		
Current Assets		
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	2,545	2,294
Property, Plant and Equipment		
Regulated utility plant	39,144	38,228
Less: accumulated depreciation - regulated utility plant	7,196	6,785
Regulated utility plant, net	31,948	31,443
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	34,018	33,092
Other Noncurrent Assets		
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	6,479	6,093
Total Assets	\$ 43,042	\$ 41,479

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
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	4,383	4,023
Long-term Debt	19,924	19,847
Deferred Credits and Other Noncurrent Liabilities		
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	6,952	6,848
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
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	11,783	10,761
Total Liabilities and Equity	\$ 43,042	\$ 41,479

(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
December 31, 2017	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)
September 30, 2018	719,702	\$ 7	\$ 11,001	\$ 4,423	\$ (3,648)	\$ 11,783
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	8,402		303			303
Stock-based compensation			(22)			(22)
Net income				1,050		1,050
Dividends and dividend equivalents				(813)		(813)
Other comprehensive income (loss)					275	275
September 30, 2017	688,133	\$ 7	\$ 10,122	\$ 4,066	\$ (3,503)	\$ 10,692

(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
Operating Revenues	\$ 548	\$ 547	\$ 1,704	\$ 1,620
Operating Expenses				
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
Total Operating Expenses	370	358	1,165	1,116
Operating Income	178	189	539	504
Other Income (Expense) - net	5	4	18	8
Interest Income from Affiliate	4	2	5	3
Interest Expense	41	36	117	105
Income Before Income Taxes	146	159	445	410
Income Taxes	35	64	111	159
Net Income (a)	\$ 111	\$ 95	\$ 334	\$ 251

(a) Net income equals comprehensive income.

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

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

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
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>
Cash Flows from Investing Activities		
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>
Cash Flows from Financing Activities		
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>
Net Increase in Cash, Cash Equivalents and Restricted Cash	365	230
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>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
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.

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CONDENSED CONSOLIDATED BALANCE SHEETS

PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
Assets		
Current Assets		
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
Total Current Assets	919	588
Property, Plant and Equipment		
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
Property, Plant and Equipment, net	9,127	8,515
Other Noncurrent Assets		
Regulatory assets	738	709
Intangibles	260	259
Other noncurrent assets	52	11
Total Other Noncurrent Assets	1,050	979
Total Assets	\$ 11,096	\$ 10,082

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
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
Total Current Liabilities	630	645
Long-term Debt	3,693	3,298
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,258	1,154
Accrued pension obligations	210	246
Regulatory liabilities	686	668
Other deferred credits and noncurrent liabilities	135	79
Total Deferred Credits and Other Noncurrent Liabilities	2,289	2,147
Commitments and Contingent Liabilities (Notes 7 and 10)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	3,158	2,729
Earnings reinvested	962	899
Total Equity	4,484	3,992
Total Liabilities and Equity	\$ 11,096	\$ 10,082

(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
December 31, 2017	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)
September 30, 2018	66,368	\$ 364	\$ 3,158	\$ 962	\$ 4,484
December 31, 2016	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)
September 30, 2017	66,368	\$ 364	\$ 2,729	\$ 893	\$ 3,986

(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.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
GE and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating Revenues	\$ 802	\$ 818	\$ 2,417	\$ 2,350
Operating Expenses				
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	581	552	1,783	1,663
Operating Income	221	266	634	687
Other Income (Expense) - net	—	(1)	(2)	(9)
Interest Expense	52	49	154	148
Interest Expense with Affiliate	7	5	18	13
Income Before Income Taxes	162	211	460	517
Income Taxes	32	79	102	195
Net Income	\$ 130	\$ 132	\$ 358	\$ 322

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

PG&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
Net income	\$ 130	\$ 132	\$ 358	\$ 322
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Defined benefit plans:				
Net actuarial gain (loss), net of tax of \$0, \$0, \$0, \$7	—	(1)	—	(12)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0, \$0	—	—	—	1
Defined benefit plans:				
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
Total other comprehensive income (loss)	2	—	4	(7)
Comprehensive income	\$ 132	\$ 132	\$ 362	\$ 315

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

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

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
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>
Cash Flows from Investing Activities		
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>
Cash Flows from Financing Activities		
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>
Net Increase (Decrease) in Cash and Cash Equivalents	<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.

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

(Unaudited)
(Millions of Dollars)

	September 30, 2018	December 31, 2017
Assets		
Current Assets		
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	743	828
Property, Plant and Equipment		
Regulated utility plant	13,438	13,187
Less: accumulated depreciation - regulated utility plant	2,031	1,785
Regulated utility plant, net	11,407	11,402
Construction work in progress	1,000	627
Property, Plant and Equipment, net	12,407	12,029
Other Noncurrent Assets		
Regulatory assets	787	795
Goodwill	996	996
Other intangibles	80	86
Other noncurrent assets	75	68
Total Other Noncurrent Assets	1,938	1,945
Total Assets	\$ 15,088	\$ 14,802

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

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CONDENSED CONSOLIDATED BALANCE SHEETS
DUKE ENERGY and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	September 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
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
Total Current Liabilities	1,468	1,327
Long-term Debt		
Long-term debt	4,521	4,661
Long-term debt to affiliate	650	400
Total Long-term Debt	5,171	5,061
Deferred Credits and Other Noncurrent Liabilities		
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
Total Deferred Credits and Other Noncurrent Liabilities	3,741	3,851
Commitments and Contingent Liabilities (Notes 7 and 10)		
Member's Equity	4,708	4,563
Total Liabilities and Equity	\$ 15,088	\$ 14,802

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

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

(Unaudited)
(Millions of Dollars)

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

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
Operating Revenues				
Retail and wholesale	\$ 357	\$ 361	\$ 1,095	\$ 1,055
Electric revenue from affiliate	5	2	21	23
Total Operating Revenues	362	363	1,116	1,078
Operating Expenses				
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
Total Operating Expenses	255	239	815	759
Operating Income	107	124	301	319
Other Income (Expense) - net	(3)	(3)	(5)	(6)
Interest Expense	20	17	57	53
Income Before Income Taxes	84	104	239	260
Income Taxes	18	39	51	99
Net Income (a)	\$ 66	\$ 65	\$ 188	\$ 161

(a) Net income equals comprehensive income.

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

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CONDENSED STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
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
Change in current assets and current liabilities		
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>
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(420)	(293)
Net cash used in investing activities	<u>(420)</u>	<u>(293)</u>
Cash Flows from Financing Activities		
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>
Net Increase (Decrease) in Cash and Cash Equivalents	(4)	4
Cash and Cash Equivalents at Beginning of Period	15	5
Cash and Cash Equivalents at End of Period	<u>\$ 11</u>	<u>\$ 9</u>
Supplemental Disclosure of Cash Flow Information		
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.

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CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
Assets		
Current Assets		
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
Total Current Assets	359	416
Property, Plant and Equipment		
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
Other Noncurrent Assets		
Regulatory assets	400	411
Goodwill	389	389
Other intangibles	49	53
Other noncurrent assets	27	12
Total Other Noncurrent Assets	865	865
Total Assets	\$ 6,721	\$ 6,559

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

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CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2018	December 31, 2017
Liabilities and Equity		
Current Liabilities		
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	755	645
Long-term Debt	1,574	1,611
Deferred Credits and Other Noncurrent Liabilities		
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	1,747	1,776
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,755	1,712
Earnings reinvested	466	391
Total Equity	2,645	2,527
Total Liabilities and Equity	\$ 6,721	\$ 6,559

(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.

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CONDENSED STATEMENTS OF EQUITY

Louisville Gas and Electric Company

(Unaudited)

(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2017	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)
September 30, 2018	21,294	\$ 424	\$ 1,755	\$ 466	\$ 2,645
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				161	161
Cash dividends declared on common stock				(150)	(150)
September 30, 2017	21,294	\$ 424	\$ 1,682	\$ 381	\$ 2,487

(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
Operating Revenues				
Retail and wholesale	\$ 445	\$ 457	\$ 1,322	\$ 1,295
Electric revenue from affiliate	2	3	10	8
Total Operating Revenues	447	460	1,332	1,303
Operating Expenses				
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
Total Operating Expenses	326	312	975	911
Operating Income	121	148	357	392
Other Income (Expense) - net	1	—	1	(4)
Interest Expense	24	24	74	72
Income Before Income Taxes	98	124	284	316
Income Taxes	21	47	59	120
Net Income (a)	\$ 77	\$ 77	\$ 225	\$ 196

(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
Cash Flows from Operating Activities		
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>
Cash Flows from Investing Activities		
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>
Cash Flows from Financing Activities		
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>
Net Increase in Cash and Cash Equivalents	<u>3</u>	<u>24</u>
Cash and Cash Equivalents at Beginning of Period	15	7
Cash and Cash Equivalents at End of Period	<u>\$ 18</u>	<u>\$ 31</u>
Supplemental Disclosure of Cash Flow Information		
Significant non-cash transactions:		
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
Assets		
Current Assets		
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	396	435
Property, Plant and Equipment		
Regulated utility plant	7,746	7,592
Less: accumulated depreciation - regulated utility plant	1,323	1,170
Regulated utility plant, net	6,423	6,422
Construction work in progress	479	321
Property, Plant and Equipment, net	6,902	6,743
Other Noncurrent Assets		
Regulatory assets	387	384
Goodwill	607	607
Other intangibles	31	33
Other noncurrent assets	77	52
Total Other Noncurrent Assets	1,102	1,076
Total Assets	\$ 8,400	\$ 8,254

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
Liabilities and Equity		
Current Liabilities		
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
Total Current Liabilities	621	414
Long-term Debt	2,224	2,328
Deferred Credits and Other Noncurrent Liabilities		
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
Total Deferred Credits and Other Noncurrent Liabilities	2,124	2,155
Commitments and Contingent Liabilities (Notes 7 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,661	2,616
Earnings reinvested	462	433
Total Equity	3,431	3,357
Total Liabilities and Equity	\$ 8,400	\$ 8,254

(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
December 31, 2017	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)
September 30, 2018	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,661</u>	<u>\$ 462</u>	<u>\$ —</u>	<u>\$ 3,431</u>
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				196		196
Cash dividends declared on common stock				(171)		(171)
Other comprehensive income					1	1
September 30, 2017	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,616</u>	<u>\$ 425</u>	<u>\$ —</u>	<u>\$ 3,349</u>

(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)

Interim Financial Statements

(All Registrants)

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

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 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.

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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.

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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	\$ 864	\$ 511	\$ 416	\$ 51

(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	\$ 1,872	\$ 1,845	\$ 5,846	\$ 5,521
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	\$ 445	\$ 355	\$ 1,412	\$ 1,050

(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	\$ 43,042	\$ 41,479

(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.

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PL 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.

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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

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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.

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	—	—	—
Revenues from Contracts with Customers	\$ 1,853	\$ 542	\$ 796	\$ 356	\$ 447

	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	—	—	—
Revenues from Contracts with Customers	\$ 5,840	\$ 1,694	\$ 2,441	\$ 1,127	\$ 1,345

(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.

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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.

As of 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:

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	Three Months		Nine Months	
	2018	2017	2018	2017
Income (Numerator)				
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	\$ 444	\$ 354	\$ 1,410	\$ 1,048
Shares of Common Stock (Denominator)				
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	710,517	688,746	702,305	686,081
Basic EPS				
Net Income available to PPL common shareowners	\$ 0.63	\$ 0.52	\$ 2.02	\$ 1.53
Diluted EPS				
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,

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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
PPL			
Deemed Dividend	\$ 397	\$ 462	\$ (65)
Bonus Depreciation (b)	(67)	—	(67)
Consolidated Federal Net Operating Loss due to the TCJA(c)	(330)	(462)	132
Total	\$ —	\$ —	\$ —
PPL Electric			
Bonus Depreciation (b)	\$ (39)	\$ —	\$ (39)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(68)	(105)	37
Total	\$ (107)	\$ (105)	\$ (2)
LKE			
Bonus Depreciation (b)	\$ (28)	\$ —	\$ (28)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(32)	(45)	13
Total	\$ (60)	\$ (45)	\$ (15)
LG&E			
Bonus Depreciation (b)	\$ (17)	\$ —	\$ (17)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	17	—	17
Total	\$ —	\$ —	\$ —
KU			
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
PPL			
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	\$ —

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

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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.

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	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.

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

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	PPL		PPL Electric	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Noncurrent Regulatory Assets:				
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	—
Total noncurrent regulatory assets	\$ 1,525	\$ 1,504	\$ 738	\$ 709

	PPL		PPL Electric	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Current Regulatory Liabilities:				
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	—	—
Total current regulatory liabilities	\$ 136	\$ 95	\$ 72	\$ 86

Noncurrent Regulatory Liabilities:				
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	—
Total noncurrent regulatory liabilities	\$ 2,739	\$ 2,704	\$ 686	\$ 668

	LKE		LG&E		KU	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Current Regulatory Assets:						
Plant outage costs	\$ 7	\$ 3	\$ 7	\$ 3	\$ —	\$ —
Generation formula rate	—	6	—	—	—	6
Gas supply clause	3	4	3	4	—	—
Other	1	5	1	5	—	—
Total current regulatory assets	\$ 11	\$ 18	\$ 11	\$ 12	\$ —	\$ 6

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	LKE		LG&E		KU	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Noncurrent Regulatory Assets:						
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
Total noncurrent regulatory assets	\$ 787	\$ 795	\$ 400	\$ 411	\$ 387	\$ 384
Current Regulatory Liabilities:						
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
Total current regulatory liabilities	\$ 64	\$ 9	\$ 26	\$ 3	\$ 38	\$ 6
Noncurrent Regulatory Liabilities:						
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
Total noncurrent regulatory liabilities	\$ 2,053	\$ 2,036	\$ 920	\$ 919	\$ 1,133	\$ 1,117

- (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

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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),

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\$24 million for LG&E electricity revenues (\$54 million through the new bill credit and \$20 million through existing rate mechanisms) and \$16 million for 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.

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In 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.

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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:

	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	
PPL								
U.K.								
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	
U.S.								
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	
PPL Electric								
Syndicated Credit Facility	Jan. 2023	\$ 650	\$ —	\$ 1	\$ 649	\$ —	\$ 1	
LKE								
Syndicated Credit Facility	Oct. 2018	\$ 75	\$ —	\$ —	\$ 75	\$ —	\$ —	
LG&E								
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	

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	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
KU							
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.

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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.

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M 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
PPL								
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.

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	Pension Benefits			
	Three Months		Nine Months	
	2018	2017	2018	2017
LKE				
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
LG&E				
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
PPL				
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

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	Other Postretirement Benefits			
	Three Months		Nine Months	
	2018	2017	2018	2017
LKE				
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	\$ 1	\$ 2	\$ 3	\$ 5

(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.

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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.

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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

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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 assess 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.

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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.

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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

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become trapped at or pulled through cooling water intake structures at generating facilities. The requirements could impose significant costs for LG&E and J, 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.

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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.

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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 September 30, 2018</u>	<u>Expiration Date</u>
<u>PPL</u>		
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)	
<u>PPL Electric</u>		
Guarantee of inventory value	15 (d)	2020
<u>LKE</u>		
Indemnification of lease termination and other divestitures	200 (e)	2021
<u>LG&E and KU</u>		
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

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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.

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.

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	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.

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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:

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	September 30, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
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	—
Total price risk management assets	297	—	297	—	264	—	264	—
Total assets	\$ 1,224	\$ 927	\$ 297	\$ —	\$ 775	\$ 511	\$ 264	\$ —
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 19	\$ —	\$ 19	\$ —	\$ 26	\$ —	\$ 26	\$ —
Foreign currency contracts	30	—	30	—	148	—	148	—
Total price risk management liabilities	\$ 49	\$ —	\$ 49	\$ —	\$ 174	\$ —	\$ 174	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 414	\$ 414	\$ —	\$ —	\$ 49	\$ 49	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 416	\$ 416	\$ —	\$ —	\$ 51	\$ 51	\$ —	\$ —
CE								
Assets								
Cash and cash equivalents	\$ 29	\$ 29	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Total assets	\$ 29	\$ 29	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 19	\$ —	\$ 19	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 19	\$ —	\$ 19	\$ —	\$ 26	\$ —	\$ 26	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 11	\$ 11	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 11	\$ 11	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 19	\$ —	\$ 19	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 19	\$ —	\$ 19	\$ —	\$ 26	\$ —	\$ 26	\$ —

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

- (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.

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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.

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- WPD is exposed to volumetric risk which is significantly mitigated as a result of the method of regulation in the U.K. Under the RIIO-ED1 price control regulations, recovery of such exposure occurs on a two year lag. See Note 1 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

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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.

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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.

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Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
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	
		Three Months	Nine Months	Three Months	Nine Months
Foreign currency contracts	Other income (expense) - net	\$ 40	\$ 92		
Interest rate swaps	Interest expense	(1)	(4)		
Total	Total	\$ 39	\$ 88		

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

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

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

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	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
September 30, 2018								
Treasury Derivatives								
PPL	\$ 297	\$ 28	\$ 25	\$ 244	\$ 49	\$ 28	\$ —	\$ 21
LKE	—	—	—	—	19	—	—	19
LG&E	—	—	—	—	19	—	—	19
December 31, 2017								
Treasury Derivatives								
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 counterparty 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.

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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	\$ 365	\$ 317	\$ 107	\$ 210

16. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

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

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
PPL						
June 30, 2018	\$ (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)
September 30, 2018	\$ (1,410)	\$ (13)	\$ —	\$ (7)	\$ (2,218)	\$ (3,648)
December 31, 2017	\$ (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)
September 30, 2018	\$ (1,410)	\$ (13)	\$ —	\$ (7)	\$ (2,218)	\$ (3,648)
June 30, 2017	\$ (1,420)	\$ (13)	\$ —	\$ (7)	\$ (2,083)	\$ (3,523)
Amounts arising during the period	(12)	1	—	—	(3)	(14)
Reclassifications from AOCI	—	—	—	—	34	34
Net OCI during the period	(12)	1	—	—	31	20
September 30, 2017	\$ (1,432)	\$ (12)	\$ —	\$ (7)	\$ (2,052)	\$ (3,503)

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	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
December 31, 2016	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)
Amounts arising during the period	195	(29)	—	—	(14)	152
Reclassifications from AOCI	—	24	1	1	97	123
Net OCI during the period	195	(5)	1	1	83	275
September 30, 2017	\$ (1,432)	\$ (12)	\$ —	\$ (7)	\$ (2,052)	\$ (3,503)
LKE						
June 30, 2018			\$ —	\$ (8)	\$ (78)	\$ (86)
Reclassifications from AOCI			—	1	1	2
Net OCI during the period			—	1	1	2
September 30, 2018			\$ —	\$ (7)	\$ (77)	\$ (84)
December 31, 2017			\$ —	\$ (9)	\$ (79)	\$ (88)
Reclassifications from AOCI			—	2	2	4
Net OCI during the period			—	2	2	4
September 30, 2018			\$ —	\$ (7)	\$ (77)	\$ (84)
June 30, 2017			\$ —	\$ (7)	\$ (70)	\$ (77)
Amounts arising during the period			—	—	(1)	(1)
Reclassifications from AOCI			—	—	1	1
Net OCI during the period			—	—	—	—
September 30, 2017			\$ —	\$ (7)	\$ (70)	\$ (77)
December 31, 2016			\$ (1)	\$ (8)	\$ (61)	\$ (70)
Amounts arising during the period			—	—	(12)	(12)
Reclassifications from AOCI			1	1	3	5
Net OCI during the period			1	1	(9)	(7)
September 30, 2017			\$ —	\$ (7)	\$ (70)	\$ (77)

(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)	

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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
Total Pre-tax	—	—	—	(1)	
Income Taxes	—	—	—	—	
Total After-tax	—	—	—	(1)	
Defined benefit plans					
Prior service costs (a)	(1)	(1)	(2)	(2)	
Net actuarial loss (a)	(42)	(44)	(130)	(125)	
Total Pre-tax	(43)	(45)	(132)	(127)	
Income Taxes	9	11	27	29	
Total After-tax	(34)	(34)	(105)	(98)	
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) carryforward 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.

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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.

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PL 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.

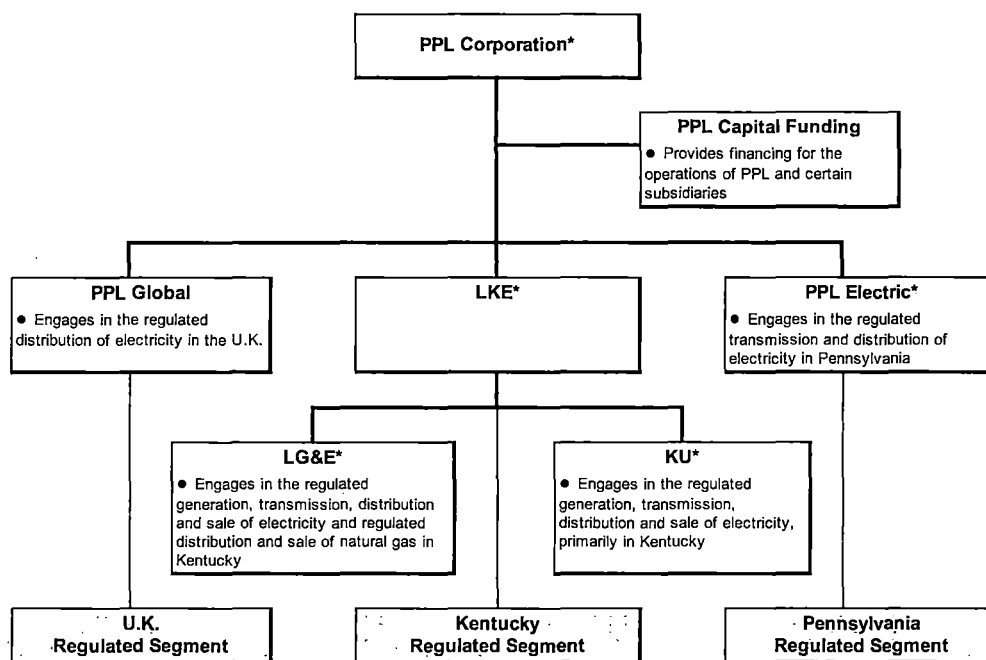
Overview

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.

(PL 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

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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

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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

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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

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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,

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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)

RIIO-ED1 Mid-period Review

In December 2017, Ofgem initiated a consultation on a potential RIIO-ED1 mid-period review (MPR). The RIIO 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 RIIO-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

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determine 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.

RIO-2 Framework Review

On March 7, 2018, Ofgem issued its consultation document on the RIO-2 framework, which covers all U.K. gas and electricity transmission and distribution price controls. The current electricity distribution price control, RIO-ED1, continues through March 31, 2023 and will not be impacted by this RIO-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 RIO-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 RIO-2 framework were due in May 2018. On July 30, 2018, Ofgem published its decision following their RIO-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 RIO-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 RIO-ED1 based on Ofgem's extensive review of asset lives in RIO-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 RIO-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 RIO-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 RIO-ED2 strategy consultation document. Although the electricity distribution consultation does not commence until 2020, WPD is ensuring that they are included in any RIO-2 related engagement. PPL cannot predict the outcome of this process or the long-term impact it or the final RIO-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.

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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.

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

"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

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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
Total Domestic	(13)	156
U.K.:		
Price	19	19
Volume	(2)	2
Foreign currency exchange rates	8	117
Engineering recharge income	18	37
Other	(3)	(6)
Total U.K.	40	169
Total	\$ 27	\$ 325

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:

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	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
Total	\$ 41	\$ 113

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)
Total	\$ 14	\$ 49

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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	\$ (13)	\$ 41

(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	\$ 445	\$ 355	\$ 90	\$ 1,412	\$ 1,050	\$ 362

(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.

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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)
Earnings from Ongoing Operations	\$ 422	\$ 388	\$ 34	\$ 1,323	\$ 1,169	\$ 154

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
Total operating expenses	225	204	21	687	590	97
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
Net Income	245	126	119	836	560	276
Less: Special Items	31	(37)	68	106	(122)	228
Earnings from Ongoing Operations	\$ 214	\$ 163	\$ 51	\$ 730	\$ 682	\$ 48

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	—
Total Special Items	\$ 31	\$ (37)	\$ 106	\$ (122)

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

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(*) 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.

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	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)	\$ —	\$ —	\$ —	\$ (1)
Kentucky state tax reform (b)	—	—	(9)	—
U.S. tax reform (c)	2	—	2	—
Total Special Items	\$ 2	\$ —	\$ (7)	\$ (1)

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

(a) 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.

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- 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)	\$ (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.

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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.

	Three Months	Nine Months
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	<u>\$ 17</u>	<u>\$ 84</u>

- 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.

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	2018 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 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)
Total Special Items	31	2	(5)	(5)	23
Earnings from Ongoing Operations	\$ 214	\$ 120	\$ 117	\$ (29)	\$ 422

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

	2018 Nine Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 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)
Total Special Items	106	(7)	(5)	(5)	89
Earnings from Ongoing Operations	\$ 730	\$ 339	\$ 340	\$ (86)	\$ 1,323

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

(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:

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"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
U.K. Regulated						
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
Kentucky Regulated						
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
Pennsylvania Regulated						
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

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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.

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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)
Operating Revenues	\$ 508 (c)	\$ 802	\$ 548	\$ 14	\$ 1,872
Operating Expenses					
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
Total	\$ 467	\$ 528	\$ 363	\$ (672)	\$ 686

	2017 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 467 (c)	\$ 818	\$ 547	\$ 13	\$ 1,845
Operating Expenses					
Fuel	—	202	—	—	202
Energy purchases	—	22	121	—	143
Other operation and maintenance	26	30	29	353	438
Depreciation	—	16	5	236	257
Taxes, other than income	—	1	25	43	69
Total Operating Expenses	26	271	180	632	1,109
Total	\$ 441	\$ 547	\$ 367	\$ (619)	\$ 736

	2018 Nine Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,687 (c)	\$ 2,417	\$ 1,704	\$ 38	\$ 5,846
Operating Expenses					
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
Total	\$ 1,578	\$ 1,544	\$ 1,106	\$ (2,033)	\$ 2,195

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	2017 Nine Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,517 (c)	\$ 2,350	\$ 1,620	\$ 34	\$ 5,521
Operating Expenses					
Fuel	—	576	—	—	576
Energy purchases	—	120	374	—	494
Other operation and maintenance	71	82	89	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
Total	\$ 1,446	\$ 1,520	\$ 1,067	\$ (1,881)	\$ 2,152

(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.

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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
Total	\$ (6)	\$ (16)

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
Total	\$ (29)	\$ (48)

(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)	—

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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
Pennsylvania Adjusted Gross Margins	\$ (4)	\$ 39
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)
Net Income	\$ 16	\$ 83

(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)
Operating Revenues	\$ 548	\$ —	\$ 548	\$ 547	\$ —	\$ 547
Operating Expenses						
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
Total Operating Expenses	185	185	370	180	178	358
Total	\$ 363	\$ (185)	\$ 178	\$ 367	\$ (178)	\$ 189

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	2018 Nine Months			2017 Nine Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,704	\$ —	\$ 1,704	\$ 1,620	\$ —	\$ 1,620
Operating Expenses						
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
Total Operating Expenses	598	567	1,165	553	563	1,116
Total	\$ 1,106	\$ (567)	\$ 539	\$ 1,067	\$ (563)	\$ 504

- (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
Operating Revenues	\$ 802	\$ 818	\$ (16)	\$ 2,417	\$ 2,350	\$ 67
Operating Expenses						
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
Total Operating Expenses	581	552	29	1,783	1,663	120
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)
Net Income	\$ 130	\$ 132	\$ (2)	\$ 358	\$ 322	\$ 36

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
Total	\$ (16)	\$ 67

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Increases were primarily due to favorable weather in 2018.

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	\$ 19	\$ 38

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	\$ (47)	\$ (93)

(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.

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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	\$ (2)	\$ 36

(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)
Operating Revenues	\$ 802	\$ —	\$ 802	\$ 818	\$ —	\$ 818
Operating Expenses						
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	274	307	581	271	281	552
Total	\$ 528	\$ (307)	\$ 221	\$ 547	\$ (281)	\$ 266

	2018 Nine Months			2017 Nine Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,417	\$ —	\$ 2,417	\$ 2,350	\$ —	\$ 2,350
Operating Expenses						
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	873	910	1,783	830	833	1,663
Total	\$ 1,544	\$ (910)	\$ 634	\$ 1,520	\$ (833)	\$ 687

(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
Operating Revenues						
Retail and wholesale	\$ 357	\$ 361	\$ (4)	\$ 1,095	\$ 1,055	\$ 40
Electric revenue from affiliate	5	2	3	21	23	(2)
Total Operating Revenues	362	363	(1)	1,116	1,078	38
Operating Expenses						
Operation						
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
Total Operating Expenses	255	239	16	815	759	56
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)
Net Income	\$ 66	\$ 65	\$ 1	\$ 188	\$ 161	\$ 27

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
Total	\$ (1)	\$ 38

(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.

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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
Total	\$ 8	\$ 19

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)
Total	\$ (21)	\$ (48)

(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.

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	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)
Operating Revenues	\$ 362	\$ —	\$ 362	\$ 363	\$ —	\$ 363
Operating Expenses						
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
Total	<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)
Operating Revenues	\$ 1,116	\$ —	\$ 1,116	\$ 1,078	\$ —	\$ 1,078
Operating Expenses						
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
Total	<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
Total Operating Revenues	447	460	(13)	1,332	1,303	29
Operating Expenses						
Operation						
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
Total Operating Expenses	326	312	14	975	911	64
Other Income (Expense) - net	1	—	1	1	(4)	5
Interest Expense	24	24	—	74	72	2
Income Taxes	21	47	(26)	59	120	(61)
Net Income	\$ 77	\$ 77	\$ —	\$ 225	\$ 196	\$ 29

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)
Total	\$ (13)	\$ 29

(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.

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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
Total	\$ 10	\$ 19

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)
Total	\$ (26)	\$ (61)

(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
Net Income	\$ —	\$ 29

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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)
Operating Revenues	\$ 447	\$ —	\$ 447	\$ 460	\$ —	\$ 460
Operating Expenses						
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
Total	\$ 288	\$ (167)	\$ 121	\$ 302	\$ (154)	\$ 148

	2018 Nine Months			2017 Nine Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,332	\$ —	\$ 1,332	\$ 1,303	\$ —	\$ 1,303
Operating Expenses						
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
Total	\$ 847	\$ (490)	\$ 357	\$ 842	\$ (450)	\$ 392

- (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:

	PPL (a)	PPL Electric	LKE	LG&E	KU
September 30, 2018					
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	—	—
December 31, 2017					
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.

	PPL	PPL Electric	LKE	LG&E	KU
2018					
Operating activities	\$ 2,210	\$ 650	\$ 787	\$ 410	\$ 485
Investing activities	(2,466)	(837)	(825)	(420)	(404)
Financing activities	618	552	37	6	(78)
2017					
Operating activities	\$ 1,754	\$ 575	\$ 920	\$ 418	\$ 501
Investing activities	(2,168)	(858)	(575)	(293)	(289)
Financing activities	738	513	(318)	(121)	(188)
Change - Cash Provided (Used)					
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.

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	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

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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.

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	PPL	PPL Electric	LKE	LG&E	KU
Increase (Decrease)	\$ (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.

	PPL	PPL Electric	LKE	LG&E	KU
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	\$ (120)	\$ 39	\$ 355	\$ 127	\$ 110

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:

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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
Total LKE	1,373	200	502	671
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
Total LKE	700	304	396
Total PPL	\$ 2,350	\$ 995	\$ 1,355

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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:

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(PPL)

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

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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
PPL				
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
LKE				
Economic hedges				
Interest rate swaps (d)	147	(19)	(2)	2033
LG&E				
Economic hedges				
Interest rate swaps (d)	147	(19)	(2)	2033

- (b) 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

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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 AOCI.

Related Party Transactions (All Registrants)

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

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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.

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m 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

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101.INS	- XBRL Instance Document
101.SCH	- XBRL Taxonomy Extension Schema
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase
101.DEF	- XBRL Taxonomy Extension Definition Linkbase
101.LAB	- XBRL Taxonomy Extension Label Linkbase
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase

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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]

KENTUCKY UTILITIES COMPANY

TO

THE BANK OF NEW YORK MELLON,

Trustee

**Supplemental Indenture No. 6
dated as of August 1, 2018**

**Supplemental to the Indenture
dated as of October 1, 2010**

Establishing

First Mortgage Bonds, Collateral Series 2018CCA

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 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.

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

COMMONWEALTH OF KENTUCKY)
)
) SS
COUNTY OF JEFFERSON)

On this 24th day of August, 2018, before me, a notary public, the undersigned, personally appeared Daniel K. Arbough, who acknowledged himself to be the Treasurer of KENTUCKY UTILITIES COMPANY, a corporation of the Commonwealths of Kentucky and Virginia and that he, as such Treasurer, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by himself as Treasurer.

In witness whereof, I hereunto set my hand and official seal.

/s/ Betty Brinley
Notary Public

[SEAL]

STATE OF NEW YORK)
)
) SS
COUNTY OF NEW YORK)

On this 23rd day of August, 2018, before me, a notary public, the undersigned, personally appeared Francine Kincaid, who acknowledged herself to be a Vice President of THE BANK OF NEW YORK MELLON, a corporation and that she, as Vice President, being authorized to do so, executed the foregoing instrument for the purposes therein contained, by signing the name of the corporation by herself as Vice President.

In witness whereof, I hereunto set my hand and official seal.

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

James J. Dimas

KENTUCKY UTILITIES COMPANY

**Bonds Issued and Outstanding
under the Indenture**

<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 Outstanding¹</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

¹ As of August 1, 2018.

KENTUCKY UTILITIES COMPANY

**Filing and Recording
of
Supplemental Indenture No. 5, dated as of August 1, 2016,
to
Indenture, dated as of October 1, 2010**

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

REAL PROPERTY

Schedule of real property owned in fee located in the Commonwealth of KentuckyBourbon 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.

Barroll 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.

Tract II:

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, easements, 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:

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.

Being the same property conveyed to Kentucky Utilities Company by Deed dated October 12, 2017, of record in Deed Book 125, Page 11 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,

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, S6°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 8th 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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EXHIBIT A - DESCRIPTION OF THE PROJECT

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 90th 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

Series A Bonds to be refunded, paid, and discharged in full on or before the 90th 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:

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 90th 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.

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 desulphurization 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 90th 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 90th 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

2007 Series A Bonds were used to acquire existing property or any interest therein with respect to which the Company was not the best 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 shows 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.

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

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:

(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 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 180th 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:

(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, 12th 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, all 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 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]

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**



TAX-EXEMPT ANALYSIS REPORT

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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.

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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 (SO₂) 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 SO₂ 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, SO₂ 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 SO₂ 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

The FGD system includes equipment to clean flue gas of SO₂ 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 (1)

Project Component ⁽⁷⁾	Estimated Costs (\$)	Percentage Qualifying Costs (%)	Qualifying Costs (\$)	
MATERIAL COSTS				
Absorber Vessel				
Struct & Ext Embeds ^{(2) (5)}	Absorber Vessel	148,406	67.5	100,174
Outlet Duct/Wall Rings ^{(2) (5)}	Absorber Vessel	1,065,433	67.5	719,167
Absorber Vessel ^{(2) (5)}	Absorber Vessel	4,725,888	67.5	3,189,974
Reaction Tank				
Struct & Ext Embeds ^{(2) (6)}	Absorber Vessel	236,065	100	236,065
Outlet Duct/Wall Rings ^{(2) (6)}	Absorber Vessel	1,694,757	100	1,694,757
Absorber Vessel ^{(2) (6)}	Absorber Vessel	7,517,345	100	7,517,345
Agitators ^{(3) (6)}	Reaction tank	1,681,477	100	1,681,477
Recirculation Loop				
Spray & Quench System ⁽⁵⁾	Recirculation Loop	6,735,635	67.5	4,546,553
Piping Systems ⁽⁵⁾	Recirculation Loop	4,198,561	67.5	2,834,028
EQUIPMENT COSTS				
Absorber Vessel				
Instruments & Controls ⁽⁵⁾	Absorber Vessel	209,692	67.5	141,542
Mist Eliminator Systems	Absorber Vessel	572,509	0	0
Reaction Tank				
Instruments & Controls ⁽⁵⁾	Absorber Vessel	333,553	100	333,553
Mist Eliminator Systems	Absorber Vessel	910,676	0	0
Recirculation Loop				
Recirculation Pumps ⁽⁵⁾	Recirculation Loop	2,156,359	67.5	1,455,542
Oxidation Blowers				
Blowers ⁽⁶⁾	Oxidation Blowers	1,300,487	100	1,300,487
OTHER COSTS				
BPEI Engineering ⁽⁴⁾		2,034,414	72.5	1,474,821
Total		35,521,262	76.6	27,225,491

- (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 (\$)
FGD Equipment and Materials			
Qualified costs for FGD Equipment (See Table 1)	35,521,262	76.6	27,225,491
Oxidation air compressor installation ^(1,2,6)	846,000	100.0	846,000
Recycle system pumps/piping ^(1,2,7)	2,163,000	67.5	1,460,025
Subtotal qualified FGD costs			29,531,516
FGD Support Equipment, etc.			
FGD structure/foundation ^(1,3,4)	29,360,000	29.5	8,670,453
FGD auxiliary power ^(1,3,5)	10,068,000	29.5	2,973,233
Craft Startup Support ⁽³⁾	1,367,000	29.5	403,696
Gypsum piping/pumps	946,000	100.0	946,000
Subtotal qualified FGD Costs for Support Equipment, etc.			12,993,382
Total Qualified Costs			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 out 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 SO₂ 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 SO₂ 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 SO₂ 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

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

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.

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COST INFORMATION PROVIDED BY KU

Cost Information Provided by KU

Ghent Unit 1 BPEI FGD Costs	Cost	FGD Subsystem
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
Total	\$35,521,262	
Fluor Installation potential costs		
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	\$ -	

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

AMENDED AND RESTATED TRUST DEED

RELATING TO THE £3,000,000,000 EURO MEDIUM
TERM NOTE PROGRAMME OF THE ISSUERS

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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 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.

"**Registrar**" 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

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 depository (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 depository 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

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.

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
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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);
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- (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

- (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

Each Relevant Issuer shall (on a several (and not joint) basis only) pay or discharge all costs, charges, Liabilities and expenses properly incurred by the Note Trustee and (if applicable) any receiver in relation to the preparation and execution of, the exercise of its powers and the performance of its duties under, and in any other manner in relation to, this Trust Deed and the other Programme documents including, but not limited to, legal and travelling expenses and any stamp, issue, registration, documentary or other taxes or duties paid by the Note Trustee in connection with any action taken or contemplated by or on behalf of the Note Trustee for enforcing or resolving any doubt concerning this Trust Deed, the Notes, the Coupons, the Talons or any other Programme document. Such costs, charges, Liabilities and expenses shall:

- (a) in the case of payments made by the Note Trustee before such demand, carry interest from the date of the demand at the rate of 2 per cent. per annum over the base rate of the Bank of England on the date on which the Note Trustee made such payments and
- (b) in other cases, carry interest at such rate from 30 days after the date of the demand or (where the demand specifies that payment is to be made on an earlier date) from such earlier date.

10.4 Value Added Tax

The Relevant Issuer shall in addition pay to the Note Trustee an amount equal to the amount of any value added tax or similar tax chargeable in respect of its remuneration (including extra remuneration and expenses) under this Trust Deed.

10.5 Indemnity

Without prejudice to the right of indemnity given by law to trustees, the Relevant Issuer will indemnify the Note Trustee and every receiver, attorney, manager, agent or other person appointed by the Note Trustee hereunder and keep it or him indemnified against all liabilities and expenses (including any VAT payable) to which it or he may become subject or which may be incurred by it or him in the negotiation and preparation of this Trust Deed and the other Programme documents and the execution or purported execution or exercise of any of its or his trusts, duties, rights, powers, authorities and discretions under this Trust Deed or any other Programme document or its or his functions under any such appointment or in respect of any other matter or thing done or omitted in any way relating to this Trust Deed or any other Programme document or any such appointment (including, without limitation, liabilities incurred in disputing or defending any of the foregoing).

10.6 Continuing Effect

Unless otherwise specifically stated in any discharge of this Trust Deed, the provisions of this Clause 10 shall continue in full force and effect notwithstanding such discharge and whether or not the Note Trustee is then the trustee of this Trust Deed.

11. PROVISIONS SUPPLEMENTAL TO THE TRUSTEE ACT 1925 AND THE TRUSTEE ACT 2000

11.1 **Advice**

The Note Trustee may act on the advice, opinion or report of or any information obtained from any lawyer, valuer, accountant (including the auditors), surveyor, banker, broker, auctioneer, or other expert (whether obtained by the Relevant Issuer, the Note Trustee or otherwise, whether or not addressed to the Note Trustee, and whether or not the advice, opinion, report or information, or any engagement letter or other related document, contains a monetary or other limit on liability or limits the scope and/or basis of such advice, opinion, report or information). The Note Trustee will not be responsible to anyone for any liability occasioned by so acting. Any such advice, opinion or information may be sent or obtained by letter, telex, fax or electronic communication and the Note Trustee shall not be liable for acting in good faith on any advice, opinion or information purporting to be conveyed by such means even if it contains an error or is not authentic.

11.2 **Note Trustee to Assume Performance**

The Note Trustee need not notify anyone of the execution of this Trust Deed or do anything to find out if a Restructuring Event or an Event of Default has occurred. Until it has actual knowledge or express notice to the contrary, the Note Trustee may assume that no such event has occurred and that the Relevant Issuer is performing all its obligations under this Trust Deed, the Notes, the Coupons and the Talons.

11.3 **Resolutions of Noteholders**

The Note Trustee shall not be responsible for having acted on a resolution purporting to be a Written Resolution or to have been passed at a meeting of Noteholders in respect of which minutes have been made and signed or a direction of a specified percentage of Noteholders even if it is later found that there was a defect in the constitution of the meeting or the passing of the resolution or the making of the directions or that the resolution was not valid or binding on the Noteholders or Couponholders.

11.4 **Certificate Signed by directors**

If the Note Trustee, in the exercise of its functions, requires to be satisfied or to have information as to any fact or the expediency of any act, it may call for and accept as sufficient evidence of that fact or the expediency of that act a certificate signed by any two directors of the Relevant Issuer as to that fact or to the effect that, in their opinion, that act is expedient and the Note Trustee need not call for further evidence and shall not be responsible for any Liability occasioned by acting on such a certificate.

11.5 **Certificate of Auditors**

A certificate of the Auditors that in their opinion a Subsidiary is or is not or was or was not at any particular time or during any particular period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Relevant Issuer, the Note Trustee, the Noteholders and the Couponholders;

11.6 **Delivery of Certificate**

The Note Trustee shall have no Liability whatsoever for any loss, cost, damages or expenses directly or indirectly suffered or incurred by the Relevant Issuer, any Noteholder, or any other person as a result of the delivery by the Note Trustee to the Relevant Issuer of a certificate as to material prejudice pursuant to Condition 12 (*Events of Default*) on the basis of an opinion formed by it in good faith.

11.7 **Deposit of Documents**

The Note Trustee may appoint as custodian, on any terms, any bank or entity whose business includes the safe custody of documents or any lawyer or firm of lawyers believed by it to be of good repute and may deposit this Trust Deed and any other documents with such custodian and pay all sums due in respect thereof. The Note Trustee is not obliged to appoint a custodian of securities payable to bearer.

11.8 **Discretion**

The Note Trustee shall have absolute and uncontrolled discretion as to the exercise of its functions and shall not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience that may result from their exercise or non-exercise.

11.9 **Note Trustee's consent**

Any consent given by the Note Trustee for the purposes of this Trust Deed may be given on such terms and subject to such conditions (if any) as the Note Trustee may require.

11.10 **Agents**

Whenever it considers it expedient in the interests of the Noteholders, the Note Trustee (using due skill, care and attention) may, in the conduct of its trust business, instead of acting personally, employ on any terms and pay an agent selected by it, whether or not a lawyer or other professional person, to transact or conduct, or concur in transacting or conducting, any business and to do or concur in doing all acts required to be done by the Note Trustee (including the receipt and payment of money) and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

11.11 **Delegation**

Whenever it considers it expedient in the interests of the Noteholders, the Note Trustee (using due skill, care and attention) may delegate to any person on any terms (including power to sub-delegate) all or any of its functions and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

11.12 **Nominees**

In relation to any asset held by it under this Trust Deed, the Note Trustee (using due skill, care and attention) may appoint any person to act as its nominee on any terms and the Note Trustee shall not be responsible for any loss, liability, expense, demand, cost, claim or proceedings incurred by reason of the misconduct, omission or default on the part of any person appointed by it hereunder or be bound to supervise the procedures or work of any such person.

11.13 Forged Notes

The Note Trustee shall not be liable to any of the Issuers or any Noteholder or Couponholder by reason of having accepted as valid or not having rejected any Note, Certificate, Coupon or Talon purporting to be such and later found to be forged or not authentic.

11.14 Confidentiality

Unless ordered to do so by a court of competent jurisdiction, the Note Trustee shall not be required to disclose to any Noteholder or Couponholder any confidential financial or other information made available to the Note Trustee by the Relevant Issuer.

11.15 Determinations Conclusive

As between itself and the Noteholders and Couponholders, the Note Trustee may determine all questions and doubts arising in relation to any of the provisions of this Trust Deed. Such determinations, whether made upon such a question actually raised or implied in the acts or proceedings of the Note Trustee, shall be conclusive and shall bind the Note Trustee, the Noteholders and the Couponholders.

11.16 Currency Conversion

Where it is necessary or desirable to convert any sum from one currency to another, it shall (unless otherwise provided hereby or required by law) be converted at such rate or rates, in accordance with such method and as at such date as may reasonably be specified by the Note Trustee but having regard to current rates of exchange, if available. Any rate, method and date so specified shall be binding on the Relevant Issuer, the Noteholders and the Couponholders.

11.17 Events of Default etc.

The Note Trustee shall not be bound to give notice to any person of the execution of this Trust Deed or to take any steps to ascertain whether any Event of Default has happened and, until it shall have actual knowledge or express notice to the contrary, the Note Trustee shall be entitled to assume that no such Event of Default has happened and that the Relevant Issuer is observing and performing all the obligations on its part contained in the Notes and Coupons and under this Trust Deed and no event has happened as a consequence of which any of the Notes may become repayable. Without prejudice to the foregoing, the Note Trustee may determine whether or not an Event of Default is in its opinion capable of remedy and/or materially prejudicial to the interests of the Noteholders. Any such determination shall be conclusive and binding on the Relevant Issuer, the Noteholders and the Couponholders.

11.18 **Payment for and Delivery of Notes**

The Note Trustee shall not be responsible for the receipt or application by the Relevant Issuer of the proceeds of the issue of the Notes, any exchange of Notes or the delivery of Notes to the persons entitled to them.

11.19 **Notes Held by the Relevant Issuer etc.**

In the absence of knowledge or express notice to the contrary, the Note Trustee may assume without enquiry (other than requesting a certificate under Clause 9(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

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

None of the Note Trustee or its directors and officers should be precluded from entering into transactions in the ordinary course of business with any of the other parties or be accountable for the same (including any profit therefrom) to Noteholders or any person.

15. MODIFICATION AND SUBSTITUTION

15.1 Modification

The Note Trustee may agree without the consent of the Noteholders or Couponholders to any modification to this Trust Deed or the Conditions or the Notes or Coupons which is, in its opinion, of a formal, minor or technical nature or to correct a manifest error. The Note Trustee may also so agree to any modification to this Trust Deed or the Notes that is in its opinion not materially prejudicial to the interests of the Noteholders, but such power does not extend to any such modification as is mentioned in the proviso to paragraph 2 of Schedule 7 (*Provisions for Meetings of Noteholders*). Any such modification shall be binding on the Noteholders and the Couponholders and, unless the Note Trustee otherwise agrees, the Relevant Issuer shall cause such modification to be notified to the Noteholders as soon as practicable thereafter in accordance with the Conditions.

15.2 Substitution

- (a) The Note Trustee may, without the consent of the Noteholders or Couponholders, agree to the substitution of the Relevant Issuer's successor in business (the "**Substituted Obligor**") in place of the Relevant Issuer (or of any previous substitute under this Subclause) as the principal debtor under this Trust Deed, the Notes, the Coupons and the Talons provided that:
- (i) a deed is executed or undertaking given by the Substituted Obligor to the Note Trustee, in form and manner satisfactory to the Note Trustee, agreeing to be bound by this Trust Deed, the Notes, the Coupons and the Talons (with consequential amendments as the Note Trustee may deem appropriate, including any necessary change of the law governing the Notes, the Coupons, the Talons and/or the Trust Deed) as if the Substituted Obligor had been named in this Trust Deed, the Notes, the Certificates, the Coupons and the Talons as the principal debtor in place of the Relevant Issuer or any previous substitute under this Subclause;
 - (ii) the Note Trustee is satisfied that (i) the Substituted Obligor has obtained all governmental and regulatory approvals and consents necessary for its assumption of liability as principal debtor in respect of the Notes and the Coupons in place of the Relevant Issuer (or such previous substitute as aforesaid) and (ii) such approvals and consents are at the time of substitution in full force and effect;
 - (iii) the Note Trustee may request legal opinions in a form and manner acceptable to it in relation to the Substituted Obligor:
-

- (iv) without prejudice to the rights of reliance of the Note Trustee under Subclause 15.2(b) the Note Trustee is satisfied that the said substitution is not materially prejudicial to the interests of the Noteholders;
- (v) Moody's and S&P have confirmed in writing to the Note Trustee that the substitution of the Substituted Obligor will not result in a downgrading of the then current credit rating of such rating agencies applicable to the class of debt represented by the Notes;
- (vi) if the Substituted Obligor is subject generally to the taxing jurisdiction of a territory or any authority of or in that territory with power to tax (the "**Substituted Territory**") other than the territory to the taxing jurisdiction of which (or to any such authority of or in which) the Relevant Issuer is subject generally (the "**Issuer's Territory**"), the Substituted Obligor shall (unless the Note Trustee otherwise agrees) give to the Note Trustee an undertaking satisfactory to the Note Trustee in terms corresponding to Condition 10 (*Taxation*) with the substitution for the references in that Condition to the Relevant Issuer's Territory of references to the Substituted Territory whereupon the Trust Deed, the Notes, the Certificates, the Coupons and the Talons shall be read accordingly;
- (vii) if any two directors of the Substituted Obligor certify that it will be solvent immediately prior to such substitution, the Note Trustee need not have regard to the Substituted Obligor's financial condition, profits or prospects or compare them with those of the Relevant Issuer or any previous substitute under this Subclause;
- (viii) the Relevant Issuer, and the Substituted Obligor comply with such other requirements as the Note Trustee may direct in the interests of the Noteholders and the Couponholders; and
- (ix) (unless the Relevant Issuer's successor in business is the Substituted Obligor) the obligations of the Substituted Obligor under this Trust Deed, the Notes and the Coupons are guaranteed by the Relevant Issuer to the Note Trustee's satisfaction.

(b) **Release of Substituted Issuer**

An agreement by the Note Trustee pursuant to this Clause 15.2 shall, if so expressed, release the Relevant Issuer (or a previous substitute) from any or all of its obligations under this Trust Deed, the Notes, the Coupons and the Talons. Notice of the substitution shall be given to the Noteholders within 14 days of the execution of such documents and compliance with such requirements.

(c) **Completion of Substitution**

On completion of the formalities set out in this Clause 15.2, the Substituted Obligor shall be deemed to be named in this Trust Deed, the Notes, the Certificates, the Coupons and the Talons as the principal debtor in place of the Relevant Issuer (or of any previous substitute) and this Trust Deed, the Notes,

the Certificates, the Coupons and the Talons shall be deemed to be amended as necessary to give effect to the substitution.

16. APPOINTMENT, RETIREMENT AND REMOVAL OF THE NOTE TRUSTEE

16.1 Appointment

Subject as provided in Clause 16.2 (*Retirement and Removal*), each Relevant Issuer has the power of appointing new trustees but no-one may be so appointed in relation to a Series of Notes unless previously approved by an Extraordinary Resolution of the Noteholders of such Series of Notes. A trust corporation shall at all times be a Note Trustee and may be the sole Note Trustee. Any appointment of a new Note Trustee shall be notified by the Relevant Issuer to the Agents and to the Noteholders as soon as practicable.

16.2 Retirement and Removal

Any Note Trustee may retire at any time on giving at least three calendar months' written notice to the Issuers without giving any reason or being responsible for any costs occasioned by such retirement and the Noteholders of any Series may by Extraordinary Resolution remove any Note Trustee in relation to such Series provided that the retirement or removal of a sole trust corporation shall not be effective until a trust corporation is appointed as successor Note Trustee. If a sole trust corporation gives notice of retirement or an Extraordinary Resolution is passed for its removal, the Relevant Issuer shall use all reasonable endeavours to procure that another trust corporation be appointed as Note Trustee but if it fails to do so within 30 days of the expiry of such three month notice period, the Note Trustee shall have the power to appoint a new Note Trustee.

16.3 Co-Note Trustees

The Note Trustee may, despite Subclause 16.1 (*Appointment*), by written notice to the Relevant Issuer (with a copy to Moody's and S&P) appoint anyone to act as an additional Note Trustee jointly with the Note Trustee:

- (a) if the Note Trustee considers the appointment to be in the interests of the Noteholders and/or the Couponholders; or
- (b) to conform with a legal requirement, restriction or condition in a jurisdiction in which a particular act is to be performed; or
- (c) to obtain a judgment or to enforce a judgment or any provision of this Trust Deed in any jurisdiction.

Subject to the provisions of this Trust Deed the Note Trustee may confer on any person so appointed such functions as it thinks fit. The Note Trustee may by written notice to each Relevant Issuer and that person remove that person. At the Note Trustee's request, each Relevant Issuer shall forthwith do all things as may be required to perfect such appointment or removal and each Relevant Issuer irrevocably appoints the Note Trustee as its attorney in its name and on its behalf to do so.

16.4 Competence of a Majority of Note Trustees

If there are more than two Note Trustees the majority of them shall be competent to perform the Note Trustee's functions provided the majority includes a trust corporation.

16.5 Merger

Any corporation into which the Note Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Note Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Note Trustee, shall be the successor of the Note Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Clause, without the execution or filing of any paper or any further act on the part of any of the parties thereto.

17. NOTES HELD IN CLEARING SYSTEMS AND COUPONHOLDERS

17.1 Notes Held in Clearing Systems

So long as any Global Note is, or any Notes represented by a Global Certificate are, held on behalf of a clearing system, in considering the interests of Noteholders, the Note Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders or participants with entitlements to any such Global Note or the Registered Notes and may consider such interests on the basis that such accountholders or participants were the holder(s) thereof.

17.2 Couponholders

No notices need be given to Couponholders. They shall be deemed to have notice of the contents of any notice given to Noteholders. Even if it has express notice to the contrary, in exercising any of its functions by reference to the interests of the Noteholders, the Note Trustee shall assume that the holder of each Note is the holder of all Coupons and Talons relating to it.

18. CURRENCY INDEMNITY

18.1 Currency of Account and Payment

The Contractual Currency is the sole currency of account and payment for all sums payable by the Relevant Issuer under or in connection with this Trust Deed, the Notes and the Coupons, including damages.

18.2 Extent of Discharge

An amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Relevant Issuer or otherwise), by the Note Trustee or any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Relevant Issuer shall only discharge the Relevant

Issuer to the extent of the Contractual Currency amount that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

18.3 Indemnity

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under this Trust Deed, the Notes or the Coupons, each Relevant Issuer (on a several (and not joint) basis only) shall indemnify it against any Liabilities sustained by it as a result. In any event, each Relevant Issuer (on a several (and not joint) basis only) shall indemnify the recipient against the cost of making any such purchase.

18.4 Indemnity Separate

The indemnities in this Clause 18 (*Currency Indemnity*) and in Subclause 10.5 (*Indemnity*) constitute separate and independent obligations from the other obligations in this Trust Deed, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by the Note Trustee and/or any Noteholder or Couponholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under this Trust Deed, the Notes and/or the Coupons or any other judgment or order. Any such Liability as referred to in Subclause 18.3 (*Indemnity*) shall be deemed to constitute a Liability suffered by the Note Trustee, the Noteholders and the Couponholders and no proof or evidence of any actual Liability shall be required by the Relevant Issuer or its liquidator(s).

19. COMMUNICATIONS

19.1 Method

Each communication under this Trust Deed shall be made in English by fax, electronic communication or otherwise in writing. Each communication or document to be delivered to any party under this Trust Deed shall be sent to that party at the fax number, postal address or electronic address, and marked for the attention of the person (if any), from time to time designated by that party to each other party for the purpose of this Trust Deed. The initial fax number, postal address, electronic address and person so designated by the parties under this Trust Deed are set out in the Procedures Memorandum.

19.2 Deemed Receipt

Any communication from any party to any other under this Trust Deed shall be effective, (if by fax) when the relevant delivery receipt is received by the sender, (if in writing) when delivered and (if by electronic communication) when the relevant receipt of such communication being read is given, or where no read receipt is requested by the sender, at the time of sending, provided that no delivery failure notification is received by the sender within 24 hours of sending such communication; provided that any communication which is received (or deemed to take effect in accordance with the foregoing) outside business hours or on a non-business day in the place of receipt shall

be deemed to take effect at the opening of business on the next following business day in such place. Any communication delivered to any party under this Trust Deed which is to be sent by fax or electronic communication will be written legal evidence.

19.3 **No Notice to Couponholders**

Neither the Note Trustee nor the Relevant Issuer shall be required to give any notice to the Couponholders for any purpose under this Trust Deed and the Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with Condition 18 (*Notices*).

20. **SEVERAL OBLIGATIONS AND NO CROSS-DEFAULT**

Notwithstanding any other provision of this Trust Deed (or any other document entered into in connection with the issue of the Notes), the obligations of each Issuer are several and if a misrepresentation, breach, default or event of default (or anything analogous thereto) (a "**Default**") occurs as a result of any act or omission or state of affairs which, in each case, relates only to an Issuer, such Default shall be deemed not to have occurred in relation to the other Issuers (the "**Other Issuers**") and, accordingly, no liability, right, action, remedy, demand, claim, acceleration of any liability or other enforcement or remedied action may be taken against the Other Issuers.

21. **FURTHER PROVISIONS**

21.1 **Partial Invalidity**

If, at any time, any provision of this Trust Deed is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

21.2 **Counterparts**

This Trust Deed may be executed manually or by facsimile in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of this Trust Deed.

22. **GOVERNING LAW AND JURISDICTION**

22.1 **Governing Law**

This Trust Deed, the Notes and any non-contractual obligations arising out of or in connection with them shall be governed by and construed in accordance with English law.

22.2 **Jurisdiction**

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with this Trust Deed, the Notes, the Coupons or the Talons and accordingly any legal action or proceedings arising out of or in connection with this

Trust Deed, the Notes, the Coupons or the Talons ("**Proceedings**") may be brought in such courts. The Issuers irrevocably submit to the jurisdiction of such courts and waive any objections to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This Clause is for the benefit of each of the Note Trustee, the Noteholders and the Couponholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

22.3 **Service of process**

Each Issuer agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to such Issuer at Avonbank, Feeder Road, Bristol BS2 0TB (for the attention of Ian Williams, Treasurer), or to such other person with an address in England or Wales and/or at such other address in England or Wales as such Issuer may specify by notice in writing to the Note Trustee and the Noteholders. Nothing in this paragraph shall affect the right of the Note Trustee or any of the Noteholders to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

**SCHEDULE 1
FORM OF GLOBAL NOTES**

**PART 1
FORM OF CGN TEMPORARY GLOBAL NOTE**

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

TEMPORARY GLOBAL NOTE

Temporary Global Note No. [•]

This temporary Global Note is issued in respect of the Notes (the "Notes") of the Tranche and Series specified in Part A of the Second Schedule hereto of [ISSUER] (the "Issuer").

Interpretation and Definitions

References in this temporary Global Note to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 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, in 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 187(a) OF THE INTERNAL REVENUE CODE.

The First Schedule

Nominal amount of Notes represented by this temporary Global Note

The following (i) issue of Notes initially represented by this temporary Global Note, (ii) exchanges of the whole or a part of this temporary Global Note for interests in a permanent Global Note or for Definitive Notes and/or (iii) cancellations or forfeitures of interests in this temporary Global Note have been made, resulting in the nominal amount of this temporary Global Note specified in the latest entry in the fourth column below:

Date	Amount of decrease in nominal amount of this temporary Global Note	Reason for decrease in nominal amount of this temporary Global Note (exchange, cancellation or forfeiture)	Nominal amount of this temporary Global Note on issue or following such decrease	Notation made by or on behalf of the Issuing and Paying Agent
Issue Date	not applicable	not applicable		

The Second Schedule

Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Second Schedule]

PART 2
FORM OF CGN PERMANENT GLOBAL NOTE

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

PERMANENT GLOBAL NOTE

Permanent Global Note No. [•]

This permanent Global Note is issued in respect of the Notes (the "Notes") of the Tranche(s) and Series specified in Part A of the Third Schedule hereto of [ISSUER] (the "Issuer").

Interpretation and Definitions

References in this permanent Global Note to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 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 presented by this permanent Global Note and (unless this permanent Global Note does not bear interest) to pay interest in respect of the Notes from the Interest Commencement Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Conditions, save that the calculation is made in respect of the total aggregate amount of the Notes, together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

Exchange

This permanent Global Note is exchangeable (free of charge to the holder) on or after the Exchange Date in whole but not, except as provided in the next paragraph, in part for the Definitive Notes if this permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**") and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

"**Exchange Date**" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and, except in the case of exchange above, in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System, are located.

Any such exchange may be effected on or after an Exchange Date by the holder of this permanent Global Note surrendering this permanent Global Note to or to the order of the Issuing and Paying Agent. In exchange for this permanent Global Note, the Issuer shall deliver, or procure the delivery of, duly executed and authenticated Definitive Notes in an aggregate nominal amount equal to the nominal amount of this permanent Global Note submitted for exchange (if appropriate, having attached to them all Coupons (and, where appropriate, Talons) in respect of interest that has not already been paid on this permanent Global Note), security printed and substantially in the form set out in the Schedules to the Trust Deed as supplemented and/or modified and/or superseded by the terms of the Third Schedule hereto.

Benefit of Conditions

Except as otherwise specified herein, this permanent Global Note is subject to the Conditions and the Trust Deed and, until the whole of this permanent Global Note is exchanged for Definitive Notes or cancelled, the holder of this permanent Global Note shall in all respects be entitled to the same benefits as if it were the holder of the Definitive Notes for which it may be exchanged and as if such Definitive Notes had been issued on the Issue Date.

Payments

No person shall be entitled to receive any payment in respect of the Notes represented by this permanent Global Note that falls due after an Exchange Date for such Notes, unless upon due presentation of this permanent Global Note for exchange, delivery of Definitive Notes is improperly withheld or refused by or on behalf of the Issuer or the Issuer does not perform or

comply with any one or more of what are expressed to be its obligations under any Definitive Notes.

Payments in respect of this permanent Global Note shall be made to its holder against presentation and (if no further payment falls to be made on it) surrender of it at the specified office of the Issuing and Paying Agent or of any other Paying Agent provided for in the Conditions. A record of each such payment shall be endorsed on the First or Second Schedule hereto, as appropriate, by the Issuing and Paying Agent or by the relevant Paying Agent, for and on behalf of the Issuing and Paying Agent, which endorsement shall (until the contrary is proved) be *prima facie* evidence that the payment in question has been made.

For the purposes of any payments made in respect of this permanent Global Note, the words "in the relevant place of presentation" shall not apply in the definition of **business day** in Condition 9(h) (*Non-Business Days*).

Prescription

Claims in respect of principal and interest (as each is defined in the Conditions) in respect of this permanent Global Note shall become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

Meetings

For the purposes of any meeting of Noteholders, the holder of this permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes.

Cancellation

Cancellation of any Note represented by this permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) shall be effected by reduction in the nominal amount of this permanent Global Note representing such Note on its presentation to or to the order of the Issuing and Paying Agent for endorsement in the First Schedule hereto, whereupon the nominal amount hereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

Notes may only be purchased by the Issuer if they are purchased together with the right to receive all future payments of interest thereon.

Issuer's Options

Any option of the Issuer provided for in the Conditions shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.

Noteholders' Options

Any option of the Noteholders provided for in the Conditions may be exercised by the holder of this permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time presenting this permanent Global Note to the Issuing and Paying Agent, or to a Paying Agent acting on behalf of the Issuing and Paying Agent, for notation accordingly in the Fourth Schedule hereto.

Notices

Notwithstanding Condition 18 (*Notices*), notices required to be given in respect of the Notes represented by this permanent Global Note may be given by their being delivered (so long as this permanent Global Note is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system) to Euroclear, Clearstream, Luxembourg or such other clearing system, as the case may be, or otherwise to the holder of this permanent Global Note, rather than by publication as required by the Conditions.

Negotiability

This permanent Global Note is a bearer document and negotiable and accordingly:

- (a) is freely transferable by delivery and such transfer shall operate to confer upon the transferee all rights and benefits appertaining hereto and to bind the transferee with all obligations appertaining hereto pursuant to the Conditions
- (b) the holder of this permanent Global Note is and shall be absolutely entitled as against all previous holders to receive all amounts by way of amounts payable upon redemption, interest or otherwise payable in respect of this permanent Global Note and the Issuer has waived against such holder and any previous holder of this permanent Global Note all rights of set-off or counterclaim that would or might otherwise be available to it in respect of the obligations evidenced by this Global Note and
-) 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.

ated as of the Issue Date.

[ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This permanent Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

HSBC BANK PLC

as Issuing and Paying Agent

By:

Authorised Signatory

For the purposes of authentication only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 1650) AND 1287(a) OF THE INTERNAL REVENUE CODE.

The First Schedule

Nominal amount of Notes represented by this permanent Global Note

The following (i) issues of Notes initially represented by this permanent Global Note, (ii) exchanges of interests in a temporary Global Note for interests in this permanent Global Note, (iii) exchanges of the whole or a part of this permanent Global Note for Definitive Notes, (iv) cancellations or forfeitures of interests in this permanent Global Note and/or (v) payments of amounts payable upon redemption in respect of this permanent Global Note have been made, resulting in the nominal amount of this permanent Global Note specified in the latest entry in the fourth column:

Date	Amount of increase/decrease in nominal amount of this permanent Global Note	Reason for increase/decrease in nominal amount of this permanent Global Note (initial issue, exchange, cancellation, forfeiture or payment, stating amount of payment made)	Nominal amount of this permanent Global Note following such increase/decrease	Notation made by or on behalf of the Issuing and Paying Agent
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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:

Due date of payment	Date of payment	Amount of interest	Notation made by or on behalf of the Issuing and Paying Agent
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The Third Schedule

Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Third Schedule.]

The Fourth Schedule

Exercise of Noteholders' Option

The following exercises of the option of the Noteholders provided for in the Conditions have been made in respect of the stated nominal amount of this permanent Global Note:

Date of exercise	Nominal amount of this permanent Global Note in respect of which exercise is made	Date of which exercise of such option is effective	Notation made by or on behalf of the Issuing and Paying Agent
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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.

HSBC BANK PLC
Issuing and Paying Agent

By:

Authorised Signatory
For the purposes of authentication only.

Effectuation

This temporary Global Note
is effectuated by or on behalf of the Common Safekeeper.

[COMMON SAFEKEEPER]

as Common Safekeeper

By:

Authorised Signatory
For the purposes of effectuation only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

Schedule

Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Schedule]

PART 4
FORM OF NGN PERMANENT GLOBAL NOTE

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

PERMANENT GLOBAL NOTE

Permanent Global Note No. [•]

This permanent Global Note is issued in respect of the Notes (the "Notes") of the Tranche(s) and Series specified in Part A of the Schedule hereto of [ISSUER] (the "Issuer").

Interpretation and Definitions

References in this permanent Global Note to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 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.

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.

SSUER]

By:

CERTIFICATE OF AUTHENTICATION

This permanent Global Note is authenticated by or on behalf of the Issuing and Paying Agent.

HSBC BANK PLC
Issuing and Paying Agent

By:

Authorised Signatory
For the purposes of authentication only.

Effectuation

This permanent Global Note
is effectuated by or on behalf of the Common Safekeeper.

[COMMON SAFEKEEPER]

as Common Safekeeper

By:

Authorised Signatory
For the purposes of effectuation only.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

Schedule

Insert the provisions of the relevant [Final Terms/Pricing Supplement] that relate to the Conditions or the Global Notes as the Schedule.]

PART 5
FORM OF GLOBAL CERTIFICATE

THIS SECURITY HAS NOT AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND THE TRUST DEED AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF THE PERIOD OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.

[WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC]/[WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC]/[WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC]

(Incorporated with limited liability in England and Wales under the Companies Act 1985 with registered number [02366923]/[02366985]/[02366894]/[03600574])

EURO MEDIUM TERM NOTE PROGRAMME

GLOBAL CERTIFICATE

Global Certificate No. [•]

This Global Certificate is issued in respect of the nominal amount specified above of the Notes (the "**Notes**") of the Tranche and Series specified in Part A of the Schedule hereto of [ISSUER] (the "**Issuer**"). This Global Certificate certifies that the person whose name is entered in the Register (the "**Registered Holder**") is registered as the holder of an issue of Notes of the nominal amount, specified currency and specified denomination set out in Part A of the Schedule hereto.

Interpretation and Definitions

References in this Global Certificate to the "Conditions" are to the Terms and Conditions applicable to the Notes (which are in the form set out in Schedule 4 (*Terms and Conditions of the Notes*) to the amended and restated Trust Deed (the "**Trust Deed**") dated 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

In connection with an exercise of the option contained in Condition 6(e) (*Redemption at the Option of the Relevant Issuer*) in relation to some only of the Notes, the Notes represented by this Global Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

Noteholders' Options

Any option of the Noteholders provided for in the Conditions may be exercised by the Noteholder giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent, as set out in the Conditions, substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the certificate numbers of the Notes in respect of which the option has been exercised. Following the exercise of any such option, the Issuer shall procure that the nominal amount of the Notes recorded in the records of the relevant clearing systems and represented by the permanent Global Certificate shall be reduced by the aggregate nominal amount stated in the relevant exercise notice.

Notices

Notwithstanding Condition 18 (*Notices*), so long as this Global Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by this Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg or (as the case may be) such Alternative Clearing System.

Determination of Entitlement

This Global Certificate is evidence of entitlement only and is not a document of title. Entitlements are determined by the Register and only the Noteholder is entitled to payment in respect of this Global Certificate.

Meetings

For the purposes of any meeting of Noteholders, the holder of the Notes represented by this Global Certificate shall be treated as being entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes.

This Global Certificate shall not become valid for any purpose until authenticated by or on behalf of the Registrar and in the case of Registered Notes held under the NSS only, effectuated by the entity appointed as Common Safekeeper by the relevant Clearing Systems.

This Global Certificate and any non-contractual obligations arising out of or in connection with it shall be governed by English law.

IN WITNESS whereof the Issuer has caused this Global Certificate to be signed on its behalf.

Dated as of the Issue Date.

ISSUER]

By:

CERTIFICATE OF AUTHENTICATION

This Global Certificate is authenticated by or on behalf of the Registrar.

HSBC BANK PLC
as Registrar

By:

Authorised Signatory
For the purposes of authentication only.

Effectuation

This Global Certificate is effectuated
by or on behalf of the Common Safekeeper

[COMMON SAFEKEEPER]
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.

ated

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.]

**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.

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
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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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(j) 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
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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:

Y₁ is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y₂ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M₁ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

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).

Early Redemption:

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*) shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the Final Terms.
- (B) Subject to the provisions of sub-paragraph (C) below, the **Amortised Face Amount** of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown in the Final Terms, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this subparagraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c) (*Zero Coupon Notes*).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Final Terms.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 12 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified in the Final Terms.

- (c) **Redemption for Taxation Reasons:** The Notes may be redeemed at the option of the Relevant Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Indexed Note) or at any time (if this Note is neither a Floating Rate Note nor an Indexed Note), on giving not less than 30 nor more than 60 days' notice to the Note Trustee and the Noteholders in accordance with Condition 18 (*Notices*) (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) (*Early Redemption*) above) (together with interest accrued to the date fixed for redemption), if (i) the

Relevant Issuer satisfies the Note Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 10 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Relevant Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Relevant Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 6(c) (*Redemption for Taxation Reasons*), the Relevant Issuer shall deliver to the Note Trustee a certificate signed by two directors of the Relevant Issuer stating that the obligation referred to in (i) above cannot be avoided by the Relevant Issuer taking reasonable measures available to it and the Note Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

- (d) **Redemption for Indexation Reasons:** Upon the occurrence of any Index Event (as defined below), the Relevant Issuer may, upon giving not less than 30 nor more than 60 days' notice to the Note Trustee and the holders of the Indexed Notes in accordance with Condition 18 (*Notices*), redeem all (but not some only) of the Indexed Notes of all Tranches on any Interest Payment Date at the Principal Amount Outstanding (adjusted in accordance with Condition 7(a) (*Application of the Index Ratio*)) plus accrued but unpaid interest. No single Tranche of Indexed Notes may be redeemed in these circumstances unless all the other Tranches of Indexed Notes linked to the same underlying Index are also redeemed at the same time. Before giving any such notice, the Relevant Issuer shall provide to the Note Trustee a certificate signed by two directors of the Relevant Issuer (a) stating that the Relevant Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Relevant Issuer so to redeem have occurred and (b) confirming that the Relevant Issuer will have sufficient funds on such Interest Payment Date to effect such redemption. The Note Trustee shall be entitled to rely on such certificate without liability to any person.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

Index Event means (i) if the Index Figure for three consecutive months falls to be determined on the basis of an Index Figure previously published as provided in Condition 7(b)(ii) (*Delay in publication of Index*) and the Note Trustee has been notified by the Issuing and Paying Agent or Agent Bank that publication of the Index has ceased or (ii) notice is published by Her Majesty's Treasury, or on its behalf, following a change in relation to the Index, offering a right of redemption to the holders of the Reference Gilt, and (in either case) no amendment or substitution of the Index has been advised by the Indexation Adviser to the Relevant Issuer and such circumstances are continuing.

Principal Amount Outstanding means, in respect of a Note on any date:

- (a) the principal amount of that Note upon issue, minus;
- (b) the aggregate amount of principal repayments or prepayments made in respect of that Note since the Issue Date.
- (e) **Redemption at the Option of the Relevant Issuer:** If Call Option is specified in the Final Terms, the Relevant Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Note Trustee and the Noteholders redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued up to (and including) the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Final Terms and no greater than the Maximum Redemption Amount to be redeemed specified in the Final Terms.

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+/Ba1, or their respective equivalents for the time being, or worse) or, if the Rating Agency shall have already rated the Rated Securities below investment grade (as described above), the rating will not be lowered by one full rating category or more, in each case as a result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Restructuring Event,

the following provisions of this Condition 6(i) (*Redemption at the Option of the Noteholders on a Restructuring Event*) shall cease to have any further effect in relation to such Restructuring Event.

- (b) if, at any time while any of the Notes remains outstanding, a Restructuring Event occurs and (subject to Condition 6(i)(i)(a) (*Redemption at the Option of the Noteholders on a Restructuring Event*)):
 - (A) within the Restructuring Period, either:
 - (i) if at the time such Restructuring Event occurs there are Rated Securities, a Rating Downgrade (as defined below) in respect of such Restructuring Event also occurs; or
 - (ii) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) in respect of such Restructuring Event also occurs; and
 - (B) an independent financial adviser shall have certified in writing to the Note Trustee that such Restructuring Event is, in its opinion, materially prejudicial to the interests of the Noteholders (a **Negative Certification**),

then, unless at any time the Relevant Issuer shall have given notice under Conditions 6(e) (*Redemption at the Option of the Relevant Issuer*), (f) (*Pre-Maturity Call Option by the Issuer*) or (g) (*Clean-up Call Option by the Issuer*) or the holder shall have given notice under Condition 6(h) (*Redemption at the Option of Noteholders*) (if applicable), the holder of each Note will, upon the giving of a Put Event Notice (as defined below), have the option (the **Restructuring Put Option**) to require the Relevant Issuer to redeem or, at the option of the Relevant Issuer, purchase (or procure the purchase of) that Note on the Put Date (as defined below), at its Optional Redemption Amount (specified in the Final Terms) together with (or, where purchased, together with an amount equal to) interest (if any) accrued to (but excluding) the Put Date.

A Restructuring Event shall be deemed not to be materially prejudicial to the interests of the Noteholders if, notwithstanding the occurrence of a Rating Downgrade or a Negative Rating Event, the rating assigned to the Rated Securities by any Rating Agency (as defined below) is subsequently increased to, or, as the case may be, there is assigned to the Notes or other unsecured and unsubordinated debt of the Relevant Issuer having an initial maturity of five years or more by any Rating Agency, an investment grade rating (BBB-/Baa3) or their respective equivalents for the time being) or better prior to any Negative Certification being issued.

Any Negative Certification shall be conclusive and binding on the Note Trustee, the Relevant Issuer and the Noteholders. The Relevant Issuer may, at any time, with the approval of the Note Trustee appoint an independent financial adviser for the purposes of this Condition 6(i) (*Redemption at the Option of the Noteholders on a Restructuring Event*). If, within five Business Days following the occurrence of a Rating Downgrade or a Negative Rating Event, as the case may be, in respect of a Restructuring Event, the Relevant Issuer shall not have appointed an independent financial adviser for the

purposes of Condition 6(i)(i)(b)(B) and (if so required by the Note Trustee) the Note Trustee is indemnified and/or prefunded and/or secured to its satisfaction against the costs of such adviser, the Note Trustee may appoint an independent financial adviser for such purpose following consultation with the Relevant Issuer.

- (ii) Promptly upon the Relevant Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Relevant Issuer shall, and at any time upon the Note Trustee if so requested by the holders of at least one-quarter in nominal amount of the Notes then outstanding shall, give notice (a **Put Event Notice**) to the Noteholders in accordance with Condition 18 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Restructuring Put Option.
- (iii) To exercise the Restructuring Put Option, the holder of a Note must comply with the provisions of Condition 6(h) (*Redemption at the Option of Noteholders*). The applicable notice period for the purposes of Condition 6(h) (*Redemption at the Option of Noteholders*), as applied to a Restructuring Put Option, shall be the period (the **Put Period**) of 45 days after that on which a Put Event Notice is given. Subject to the relevant Noteholder having complied with Condition 6(h) (*Redemption at the Option of Noteholders*), the Relevant Issuer shall redeem or, at the option of that Relevant Issuer, purchase (or procure the purchase of) the relevant Note on the fifteenth day after the date of expiry of the Put Period (the **Put Date**) unless previously redeemed or purchased.
- (iv) For the purposes of these Conditions:
 - (a) **Distribution Services Area** means, in respect of a Relevant Issuer, the area specified as such in the distribution licence granted to it on 1 October 2001 under section 6(1)(c) of the Electricity Act 1989 (as amended by section 30 of the Utilities Act 2000), as of the date of such distribution licence.
 - (b) A **Negative Rating Event** shall be deemed to have occurred if (1) a Relevant Issuer does not, either prior to or not later than 14 days after the date of the relevant Restructuring Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Notes or any other unsecured and unsubordinated debt of that Relevant Issuer having an initial maturity of five years or more from a Rating Agency or (2) if it does so seek and use such endeavours, it is unable, as a result of such Restructuring Event, to obtain such a rating of at least investment grade (BBB-/Baa3, or their respective equivalents for the time being).
 - (c) A **Put Event** occurs on the date of the last to occur of (1) a Restructuring Event, (2) either a Rating Downgrade or, as the case may be, a Negative Rating Event and (3) the relevant Negative Certification.
 - (d) **Rating Agency** means Standard & Poor's Credit Market Services Europe Limited or any of its subsidiaries and their successors (**Standard & Poor's**) or Moody's Investors Service Limited or any of its subsidiaries and their successors (**Moody's**) or any rating agency substituted for any of them (or any permitted substitute of them) by the Relevant Issuer from time to time with the prior written approval of the Note Trustee.

- (e) A **Rating Downgrade** shall be deemed to have occurred in respect of a Restructuring Event if the then current rating assigned to the Rated Securities by any Rating Agency (whether provided by a Rating Agency at the invitation of the Relevant Issuer or by its own volition) is withdrawn or reduced from an investment grade rating (BBB-/Baa3), or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/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*).

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_{m-3} means the Index Figure for the first day of the month that is three months prior to the month in which the payment falls due;

RPI_{m-2} means the Index Figure for the first day of the month that is two months prior to the month in which the payment falls due;

Any reference to the **Index Figure applicable** to a particular Calculation Date shall, subject as provided in Condition 7(b) (*Changes in Circumstances Affecting the Index*) and Condition 7(d) (*Cessation of or Fundamental Changes to the Index*) below, and if “8 months lag” is specified in the relevant Final Terms, be construed as a reference to the Index Figure published in the seventh month prior to that particular month and relating to the month before that of publication;

Index Linked Interest Notes means Notes with an Interest Basis specified as being Index Linked Interest in the relevant Final Terms.

Index Linked Redemption Notes means Notes with a Redemption Basis specified as being Index Linked Redemption in the relevant Final Terms.

Index Ratio applicable to any Calculation Date means the Index Figure applicable to such date divided by the Base Index Figure;

Indexed Notes means Index Linked Interest Notes and Index Linked Redemption Notes.

Limited Index Ratio means (a) in respect of any month prior to the relevant Issue Date, the Index Ratio for that month; (b) in respect of any Limited Indexation Month after the relevant Issue Date, the product of the Limited Indexation Factor for that month and the Limited Index Ratio as previously calculated in respect of the month twelve months prior thereto; and (c) in respect of any other month, the Limited Index Ratio as previously calculated in respect of the most recent Limited Indexation Month;

Limited Indexation Factor means, in respect of a Limited Indexation Month, the ratio of the Index Figure applicable to that month divided by the Index Figure applicable to the month twelve months prior thereto, provided that (a) if such ratio is greater than the Maximum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Maximum Indexation Factor and (b) if such ratio is less than the Minimum Indexation Factor specified in the relevant Final Terms, it shall be deemed to be equal to such Minimum Indexation Factor;

Limited Indexation Month means any month specified in the relevant Final Terms for which a Limited Indexation Factor is to be calculated;

Limited Indexed Notes means Indexed Notes to which a Maximum Indexation Factor and/or a Minimum Indexation Factor (as specified in the relevant Final Terms) applies;

Maximum Indexation Factor means the indexation factor specified as such in the relevant Final Terms;

Minimum Indexation Factor means the indexation factor specified as such in the relevant Final Terms; and

Reference Gilt means the Treasury Stock specified as such in the relevant Final Terms for so long as such stock is in issue, and thereafter such issue of index-linked Treasury Stock determined to be appropriate by a gilt-edged market maker or other adviser selected by the Relevant Issuer and approved by the Note Trustee (an **Indexation Adviser**).

Subsidiary means a subsidiary within the meaning of section 1159 of the Companies Act 2006.

Subsidiary Undertaking shall have the meaning given to it by section 1162 of the Companies Act 2006 (but, in relation to the Relevant Issuer, shall exclude any undertaking (as defined in section 1161 of the Companies Act 2006) whose accounts are not included in the then latest published audited consolidated accounts of the Relevant Issuer, or (in the case of an undertaking which has first become a subsidiary undertaking of a member of the Group since the date as at which any such audited accounts were prepared) would not have been so included or consolidated if it had become so on or before that date).

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 unmaturing Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing 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, unmaturing Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Where any Bearer Note that provides that the relative unmaturing Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmaturing Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Relevant Issuer may require.
- (v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity

Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 11 (*Prescription*)).
- (h) **Non-Business Days:** Subject as provided in the relevant Final Terms, if any date for payment in respect of any Note or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this paragraph, **business day** means a day (other than a Saturday or a Sunday) on which banks are open for presentation and payment of debt securities and for dealings in foreign currency in the relevant place of presentation in such jurisdiction as shall be specified as “**Additional Financial Centre(s)**” in the relevant Final Terms and (in the case of a payment in a currency other than euro), where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which dealings may be carried on in the relevant currency in the principal financial centre of the country of such currency and, in relation to any sum payable in euro, a day on which the TARGET System is open.

10. Taxation

All payments of principal and interest by or on behalf of the Relevant Issuer in respect of the Notes, and the Coupons shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Relevant Issuer shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note or Coupon; or
- (b) **Lawful avoidance of withholding:** to, or to a third party on behalf of, a holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying or procuring that any third party complies with any statutory requirements or by making or procuring that any third party makes a declaration of non-residence or other similar claim for exemption to any tax authority in the place where the relevant Note (or the Certificate representing it) or Coupon is presented for payment; or
- (c) **Presentation more than 30 days after the Relevant Date:** presented or surrendered (or in respect of which the Certificate representing it is presented or surrendered) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day.

As used in these Conditions, **Relevant Date** in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate) or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation. References in these Conditions to (i) **principal** shall be deemed to include any premium payable in respect of the Notes, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 (*Redemption, Purchase and Options*) or any amendment or supplement to it, (ii) **interest** shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 (*Interest and other Calculations*) or any amendment or supplement to it and (iii) **principal** and/or **interest** shall be deemed to include any additional amounts that may be payable under this Condition or any undertaking given in addition to or in substitution for it under the Trust Deed.

11. Prescription

Claims against the Relevant Issuer for payment in respect of the Notes and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

12. Events of Default

If any of the following events (**Events of Default**) occurs and is continuing, the Note Trustee at its discretion may, and if so requested by holders of at least one-quarter in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Relevant Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

- (i) **Non-Payment:** if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days in the case of principal and 21 days in the case of interest or, where relevant, the Relevant Issuer, having become obliged to redeem, purchase or procure the purchase of (as the case may be) any Notes pursuant to Condition 6 (*Redemption, Purchase and Options*) fails to do so within a period of 14 days of having become so obliged; or
- (ii) **Breach of Other Obligations:** the Relevant Issuer does not perform, observe or comply with any one or more of its other obligations, covenants, conditions or provisions under the Notes or the Trust Deed and (except where the Note Trustee shall have certified to the Issuer in writing that it considers such failure to be incapable of remedy in which case no such notice or continuation as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Note Trustee may in its absolute discretion permit) next following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (iii) **Cross-Acceleration:** if (A) any other indebtedness for borrowed money (as defined in Condition 4 (*Negative Pledge and Restriction on Distribution of Dividends*)) but, for the purposes of this paragraph (iii), excluding Non-recourse Indebtedness) of the Relevant

Issuer or any Principal Subsidiary becomes due and repayable prior to its stated maturity by reason of a default or (B) any such indebtedness for borrowed money is not paid when due or, as the case may be, within any applicable grace period (as originally provided) or (C) the Relevant Issuer or any Principal Subsidiary fails to pay when due (or, as the case may be, within any originally applicable grace period) any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money of any person or (D) any security given by the Relevant Issuer or any Principal Subsidiary for any indebtedness for borrowed money of any person or any guarantee or indemnity of indebtedness for borrowed money of any person becomes enforceable by reason of default in relation thereto and steps are taken to enforce such security save in any such case where there is a *bona fide* dispute as to whether the relevant indebtedness for borrowed money or any such guarantee or indemnity as aforesaid shall be due and payable, provided that the aggregate amount of the relevant indebtedness for borrowed money in respect of which any one or more of the events mentioned above in this paragraph (iii) has or have occurred equals or exceeds whichever is the greater of £20,000,000 or its equivalent in other currencies (on the basis of the middle spot rate for the relevant currency against pounds sterling as quoted by any leading bank on the day on which this paragraph (iii) applies) and two per cent. of the Capital and Reserves; or

- (iv) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any substantial part of the property, assets or revenues of the Relevant Issuer and is not discharged or stayed within 90 days; or
 - (v) **Insolvency:** the Relevant Issuer is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of its debts generally or a material part of a particular type of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting its debts generally or any part of a particular type of the debts of the Relevant Issuer; or
 - (vi) **Winding-up:** (A) an administrator or liquidator is appointed in relation to the Relevant Issuer (and, in each case, not discharged within 90 days) or (B) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Relevant Issuer, or (C) the Relevant Issuer shall apply or petition for a winding-up or administration order in respect of itself or (D) the Relevant Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case ((A) to (D) inclusive) except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Note Trustee or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or
 - (vii) **Nationalisation:** any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Relevant Issuer; or
 - (viii) **Illegality:** it is or will become unlawful for the Relevant Issuer to perform or comply with any one or more of its obligations under any of the Notes or the Trust Deed,
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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.

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.

1. 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.

SSUER]

By:

[Cp. No.]

[Denomination]

[ISIN]

[Series]

[Certif. No.]

On the back:

SUING AND PAYING AGENT

[•]

PAYING AGENT[S]

[•]

[•]

[*Only necessary where Interest Payment Dates are subject to adjustment in accordance with a Business Day Convention otherwise the particular interest Payment Date should be specified.]

[**Only required for Coupons relating to Floating Rate or Index Linked Interest Notes that are issued in more than one denomination.]

[***Delete if Coupons are not to become void upon early redemption of Note.]

**SCHEDULE 6
FORM OF TALON**

On the front:

[ISSUER]

EURO MEDIUM TERM NOTE PROGRAMME

Series No. [•]

[Title of issue]

Talon for further Coupons falling due on [the Interest Payment Dates falling in]*[[]].

[Talon relating to Note in the nominal amount of [•]]**

After all the Coupons relating to the Note to which this Talon relates have matured, further Coupons (including if appropriate a Talon for further Coupons) shall be issued at the specified office of the Issuing and Paying Agent set out on the reverse hereof (or any other Issuing and Paying Agent or specified office duly appointed or nominated and notified to the Noteholders) upon production and surrender of this Talon.

If the Note to which this Talon relates shall have become due and payable before the original due date for exchange of this Talon, this Talon shall become void and no exchange shall be made in respect of it.

ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.

SSUER]

By:

[Talon No.]

[ISIN]

[Series]

[Certif. No.]

n the back:

ISSUING AND PAYING AGENT

[•]

[* The maturity dates of the relevant Coupons should be set out if known, otherwise reference should be made to the months and years in which the Interest Payment Dates fall due.]

[** Only required where the Series comprises Notes of more than one denomination.]

SCHEDULE 7
PROVISIONS FOR MEETINGS OF NOTEHOLDERS

Interpretation

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

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.

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.
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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.
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Chairman

5. 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

3. 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.

oting

22. Each question submitted to a meeting shall be decided by a show of hands unless a poll is (before, or on the declaration of the result of, the show of hands) demanded by the chairman, the Relevant Issuer, the Note Trustee or one or more persons holding one or more Notes or voting certificates representing 2 per cent. of the Notes.
23. Unless a poll is demanded a declaration by the chairman that a resolution has or has not been passed shall be conclusive evidence of the fact without proof of the number or proportion of the votes cast in favour of or against it.
24. If a poll is demanded, it shall be taken in such manner and (subject as provided below) either at once or after such adjournment as the chairman directs. The result of the poll shall be deemed to be the resolution of the meeting at which it was demanded as at the date it was taken. A demand for a poll shall not prevent the meeting continuing for the transaction of business other than the question on which it has been demanded.
25. A poll demanded on the election of a chairman or on a question of adjournment shall be taken at once.
26. On a show of hands every person who is present in person and who produces a Bearer Note, a Certificate of which he is the registered holder or a voting certificate or is a proxy or representative has one vote. On a poll every such person has one vote in respect of each integral currency unit of the Specified Currency of such Series of Notes so produced

or represented by the voting certificate so produced or for which he is a proxy or representative. Without prejudice to the obligations of proxies, a person entitled to more than one vote need not use them all or cast them all in the same way.

27. In case of equality of votes the chairman shall both on a show of hands and on a poll have a casting vote in addition to any other votes which he may have.

Effect and Publication of an Extraordinary Resolution

28. An Extraordinary Resolution shall be binding on all the Noteholders, whether or not present at the meeting, and on all the Couponholders and each of them shall be bound to give effect to it accordingly. The passing of such a resolution shall be conclusive evidence that the circumstances justify its being passed. The Relevant Issuer shall give notice of the passing of an Extraordinary Resolution to Noteholders and, in relation to Bearer Notes, to the Paying Agents, and in relation to Registered Notes, to the Registrar within 14 days but failure to do so shall not invalidate the resolution.

Minutes

29. Minutes shall be made of all resolutions and proceedings at every meeting and, if purporting to be signed by the chairman of that meeting or of the next succeeding meeting, shall be conclusive evidence of the matters in them. Unless and until the contrary is proved, every meeting for which minutes have been so made and signed shall be deemed to have been duly convened and held and all resolutions passed or proceedings transacted at it to have been duly passed and transacted.

Written Resolutions

30. A written resolution signed by the holders of not less than 75 per cent., in nominal amount of the Notes outstanding shall take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

Note Trustee's Power to Prescribe Regulations

31. Subject to all other provisions in this Trust Deed the Note Trustee may without the consent of the Noteholders prescribe such further regulations regarding the holding of meetings and attendance and voting at them as it in its sole discretion determines including (without limitation) such requirements as the Note Trustee thinks reasonable to satisfy itself that the persons who purport to make any requisition in accordance with this Trust Deed are entitled to do so and as to the form of voting certificates or block voting instructions so as to satisfy itself that persons who purport to attend or vote at a meeting are entitled to do so.
32. The foregoing provisions of this Schedule shall have effect subject to the following provisions:
- (a) Meetings of Noteholders of separate Series will normally be held separately. However, the Note Trustee may from time to time determine that meetings of Noteholders of separate Series shall be held together
-

- (b) A resolution that in the opinion of the Note Trustee affects one Series alone shall be deemed to have been duly passed if passed at a separate meeting of the Noteholders of the Series concerned
- (c) A resolution that in the opinion of the Note Trustee affects the Noteholders of more than one Series but does not give rise to a conflict of interest between the Noteholders of the different Series concerned shall be deemed to have been duly passed if passed at a single meeting of the Noteholders of the relevant Series provided that for the purposes of determining the votes a Noteholder is entitled to cast pursuant to paragraph 26, each Noteholder shall have one vote in respect of each £1,000 nominal amount of Notes held, converted, if such Notes are not denominated in sterling, in accordance with Subclause 11.16 (*Currency Conversion*)
- (d) A resolution that in the opinion of the Note Trustee affects the Noteholders of more than one Series and gives or may give rise to a conflict of interest between the Noteholders of the different Series concerned shall be deemed to have been duly passed only if it shall be duly passed at separate meetings of the Noteholders of the relevant Series
- (e) To all such meetings as aforesaid all the preceding provisions of this Schedule shall *mutatis mutandis* apply as though references therein to Notes and to Noteholders were references to the Notes and Noteholders of the Series concerned.

THIS DEED is delivered on the date stated at the beginning.

Signatories

WESTERN POWER DISTRIBUTION (EAST MIDLANDS) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION (EAST)
MIDLANDS) PLC)

acting by)

and)

Director

Director/Secretary

WESTERN POWER DISTRIBUTION (SOUTH WALES) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION)
(SOUTH WALES) PLC)

acting by)

and)

Director

Director/Secretary

WESTERN POWER DISTRIBUTION (SOUTH WEST) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION)
(SOUTH WEST) PLC)

acting by)

and)

Director

Director/Secretary

WESTERN POWER DISTRIBUTION (WEST MIDLANDS) PLC

EXECUTED as a deed by WESTERN POWER DISTRIBUTION)
(WEST MIDLANDS) PLC)

acting by)

and)

Director

Director/Secretary

HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED

_____ signed as a deed by _____ as authorised signatory for HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED in the presence of:

Signature of witness

Name of witness

Address of witness

Occupation of witness

CLIFFORD
CHANCE

CLIFFORD CHANCE LLP

CONFORMED COPY

WESTERN POWER DISTRIBUTION PLC

HSBC CORPORATE TRUSTEE COMPANY (UK) LIMITED

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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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.

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.

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
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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.

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

- 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
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**

This Trust Deed may be executed in any number of counterparts, each of which shall be deemed an original.

A 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.

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 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

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

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 depositaries 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.

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,

**the beneficial owner(s) of the Securities
which this certificate relates.**

By:

_____ *Authorised signatory*

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 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

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

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]¹)

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.

¹ 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+/Bal, 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
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(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
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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 unmaturing Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing 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.

[On the reverse of the Coupon:]

Principal Paying Agent: HSBC Bank Plc, 8 Canada Square, London E14 5HQ.

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 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 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.

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.
-

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**

**PPL CORPORATION
INCENTIVE COMPENSATION PLAN
FOR KEY EMPLOYEES**

EFFECTIVE AUGUST 1, 2013

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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.

(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

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

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.

(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.

(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

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

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

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.

(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

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.

(ff) **"Termination"** means a Participant's resignation or discharge from employment with PPL Corporation and 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

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

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

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

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

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

(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

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.

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

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:
-

(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

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

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

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

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.

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.

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).

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,

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

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

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>
Total fixed charges as below	738	927	917	1,054	1,095	1,096
Less:						
Capitalized interest	6	4	4	11	11	11
Interest expense and fixed charges related to discontinued operations	—	—	—	150	186	235
Total fixed charges included in Income from Continuing Operations Before Income Taxes	732	923	913	893	898	850
Total earnings	\$ 2,506	\$ 2,836	\$ 3,462	\$ 2,960	\$ 3,027	\$ 2,578
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
Total fixed charges (c)	\$ 738	\$ 927	\$ 917	\$ 1,054	\$ 1,095	\$ 1,096
Ratio of earnings to fixed charges (d)	3.4	3.1	3.8	2.8	2.8	2.4

(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
Earnings, as defined:						
Income Before Income Taxes	\$ 445	\$ 575	\$ 552	\$ 416	\$ 423	\$ 317
Total fixed charges as below	126	153	141	139	131	117
Total earnings	<u>\$ 571</u>	<u>\$ 728</u>	<u>\$ 693</u>	<u>\$ 555</u>	<u>\$ 554</u>	<u>\$ 434</u>
Fixed charges, as defined:						
Interest charges (a)	\$ 123	\$ 149	\$ 137	\$ 135	\$ 127	\$ 113
Estimated interest component of operating rentals	3	4	4	4	4	4
Total fixed charges (b)	<u>\$ 126</u>	<u>\$ 153</u>	<u>\$ 141</u>	<u>\$ 139</u>	<u>\$ 131</u>	<u>\$ 117</u>
Ratio of earnings to fixed charges (c)	<u>4.5</u>	<u>4.8</u>	<u>4.9</u>	<u>4.0</u>	<u>4.2</u>	<u>3.7</u>

(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&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)
	460	692	685	602	552	550
Total fixed charges as below	179	224	223	189	173	151
Total earnings	\$ 639	\$ 916	\$ 908	\$ 791	\$ 725	\$ 701
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	\$ 179	\$ 224	\$ 223	\$ 189	\$ 173	\$ 151
Ratio of earnings to fixed charges	3.6	4.1	4.1	4.2	4.2	4.6

(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	\$ 300	\$ 420	\$ 405	\$ 360	\$ 323	\$ 293
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	\$ 61	\$ 76	\$ 76	\$ 61	\$ 51	\$ 36
Ratio of earnings to fixed charges	4.9	5.5	5.3	5.9	6.3	8.1

(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,	Years Ended December 31,				
	2018	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)
	284	419	427	373	354	359
Total fixed charges as below	77	100	100	86	80	73
Total earnings	\$ 361	\$ 519	\$ 527	\$ 459	\$ 434	\$ 432
Fixed charges, as defined:						
Interest charges (a)	\$ 74	\$ 96	\$ 96	\$ 82	\$ 77	\$ 70
Estimated interest component of operating rentals	3	4	4	4	3	3
Total fixed charges	\$ 77	\$ 100	\$ 100	\$ 86	\$ 80	\$ 73
Ratio of earnings to fixed charges	4.7	5.2	5.3	5.3	5.4	5.9

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

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

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

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

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

Marlene C. Beers

Vice President-Finance and Regulatory Affairs and Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

CERTIFICATION

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

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

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

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

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

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.

Tab	Description
1	Quarterly and Annual LG&E and KU Financial Statements for 2018
2	Transfer of Assets
3	Intercompany Monthly Invoices
4	Intercompany Power Sales and Purchases
5	Costs of Jointly Owned Trimble County Units
6	Allocation of Jointly-Used Buildings and Equipment
7	Costs of Jointly Owned Combustion Turbines
8	Cash Collected and Paid by LG&E on Behalf of KU
9	Cost Allocation Manual
10	Virginia State Corporation Commission - 2018 Annual Report of Affiliate Transactions
11	Entity Changes Occurring in 2018
12	LG&E and KU Services Company 2018 FERC Form 60
13	Schedule of Professional Employees Transferred in 2018
14	Costs of Jointly Owned Solar Facility

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COMMISSION

SEC Form 10-K

December 31, 2018

Morningstar[®] Document ResearchSM

FORM 10-K

PPL CORP - PPL

Filed: February 14, 2019 (period: December 31, 2018)

Annual report with a comprehensive overview of the company

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 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	PPL Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-905	PPL Electric Utilities Corporation (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
33-173665	LG&E and KU Energy LLC (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	20-0523163
1-2893	Louisville Gas and Electric Company (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, Kentucky 40202-1377 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, Kentucky 40507-1462 (502) 627-2000	61-0247570

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

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

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

Common Stock of PPL Electric Utilities Corporation

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

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

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

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

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

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

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

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

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

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

PPL Corporation	Yes ___	No <u>X</u>
PPL Electric Utilities Corporation	Yes ___	No <u>X</u>
LG&E and KU Energy LLC	Yes ___	No <u>X</u>
Louisville Gas and Electric Company	Yes ___	No <u>X</u>
Kentucky Utilities Company	Yes ___	No <u>X</u>

As of June 29, 2018, PPL Corporation had 699,127,940 shares of its \$0.01 par value Common Stock outstanding. The aggregate market value of these common shares (based upon the closing price of these shares on the New York Stock Exchange on that date) held by non-affiliates was \$19,960,102,687. As of January 31, 2019, PPL Corporation had 720,936,897 shares of its \$0.01 par value Common Stock outstanding.

As of January 31, 2019, PPL Corporation held all 66,368,056 outstanding common shares, no par value, of PPL Electric Utilities Corporation.

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

As of January 31, 2019, LG&E and KU Energy LLC held all 21,294,223 outstanding common shares, no par value, of Louisville Gas and Electric Company.

As of January 31, 2019, LG&E and KU Energy LLC held all 37,817,878 outstanding common shares, no par value, of Kentucky Utilities Company.

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

Documents incorporated by reference:

PPL Corporation has incorporated herein by reference certain sections of PPL Corporation's 2019 Notice of Annual Meeting and Proxy Statement, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018. Such Statements will provide the information required by Part III of this Report.

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

FORM 10-K ANNUAL REPORT TO
THE SECURITIES AND EXCHANGE COMMISSION
FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its subsidiaries

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

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

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

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

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

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

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

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

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

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

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

PPL WPD Limited - an indirect U.K. subsidiary of PPL Global. 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.

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

WPD - refers to PPL WPD Limited and its subsidiaries.

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

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

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

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

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

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

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

Other terms and abbreviations

£ - British pound sterling.

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

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

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

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

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

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.

AIP - annual iteration process.

OCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

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

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

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

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

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

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

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

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PCN - 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.

DDCP - Directors Deferred Compensation Plan.

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.

DOJ - U.S. Department of Justice.

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

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

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

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

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

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

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

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

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

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

EPS - earnings per share.

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

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

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

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£ - British pound sterling.

GHG(s) - greenhouse gas(es).

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

GWh - gigawatt-hour, one million kilowatt hours.

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

IBEW - International Brotherhood of Electrical Workers.

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

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

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

IT - Information Technology.

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

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

kV - kilovolt.

kVA - kilovolt ampere.

Wh - kilowatt hour, basic unit of electrical energy.

LCIDA - Lehigh County Industrial Development Authority.

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

LIBOR - London Interbank Offered Rate.

MATS - Mercury and Air Toxics Standards, regulations promulgated by the EPA.

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

MMBtu - one million British Thermal Units.

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

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

MPR - Mid-period review, a review of output requirements in RIIO-ED1 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.

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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.

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

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

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

OCI - other comprehensive income or loss.

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

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

PEDFA - Pennsylvania Economic Development Financing Authority.

Performance unit - stock-based compensation award that represents a variable number of shares of PPL common stock that a recipient may receive based on PPL's attainment of (i) relative total shareholder return (TSR) over a three-year performance period as compared to companies in the Philadelphia Stock Exchange Utility Index; or (ii) corporate return on equity (ROE) based on the average of the annual ROE for each year of the three-year performance period.

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

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

PP&E - property, plant and equipment.

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

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

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

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

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

RCRA - Resource Conservation and Recovery Act of 1976.

RECs - renewable energy credits.

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

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

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

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

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

RPI - retail price index, 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Forward-looking Information

Statements contained in this Annual Report concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although the Registrants believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" and in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Annual Report, the following are among the important factors that could cause actual results to differ materially and adversely from the forward-looking statements:

- the outcome of rate cases or other cost recovery or revenue proceedings;
- changes in U.S. state or federal or U.K. tax laws or regulations, including the TCJA;
- the direct or indirect effects on PPL or its subsidiaries or business systems of cyber-based intrusion or the threat of cyber attacks;
- significant decreases in demand for electricity in the U.S.;
- expansion of alternative and distributed sources of electricity generation and storage;
- changes in foreign currency exchange rates for British pound sterling and the related impact on unrealized gains and losses on PPL's foreign currency economic hedges;
- the effectiveness of our risk management programs, including foreign currency and interest rate hedging;
- non-achievement by WPD of performance targets set by Ofgem;
- the effect of changes in RPI on WPD's revenues and index linked debt;
- developments related to ongoing negotiations regarding the U.K.'s intent to withdraw from European Union and any actions in response thereto;
- the amount of WPD's pension deficit funding recovered in revenues after March 31, 2021, following the next triennial pension review to begin in March 2019;
- defaults by counterparties or suppliers for energy, capacity, coal, natural gas or key commodities, goods or services;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- a material decline in the market value of PPL's equity;
- significant decreases in the fair value of debt and equity securities and its impact on the value of assets in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension and retiree medical liabilities, ARO liabilities and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial markets and economic conditions;
- the potential impact of any unrecorded commitments and liabilities of the Registrants and their subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in the corporate credit ratings or securities analyst rankings of the Registrants and their securities;
- any requirement to record impairment charges pursuant to GAAP with respect to any of our significant investments;
- laws or regulations to reduce emissions of GHGs or the physical effects of climate change;
- continuing ability to access fuel supply for LG&E and KU, as well as the ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU and natural gas supply costs at LG&E;
- weather and other conditions affecting generation, transmission and distribution operations, operating costs and customer energy use;
- catastrophic events such as fires, earthquakes, explosions, floods, tornadoes, hurricanes and other storms, droughts, pandemic health events or other similar occurrences;
- war, armed conflicts, terrorist attacks, or similar disruptive events;
- changes in political, regulatory or economic conditions in states, regions or countries where the Registrants or their subsidiaries conduct business;
- receipt of necessary governmental permits and approvals;
- new state, federal or foreign legislation or regulatory developments;
- the impact of any state, federal or foreign investigations applicable to the Registrants and their subsidiaries and the energy industry;
- our ability to attract and retain qualified employees;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures;
- business dispositions or acquisitions and our ability to realize expected benefits from such business transactions;

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collective labor bargaining negotiations; and
the outcome of litigation against the Registrants and their subsidiaries.

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

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

PART I

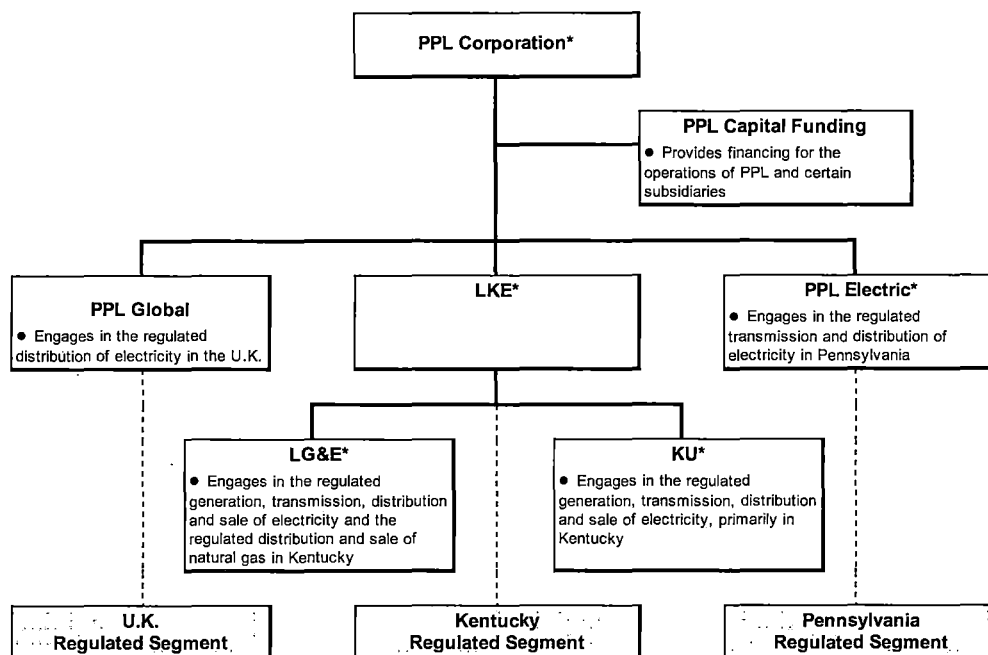
ITEM 1. BUSINESS

General

(All Registrants)

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

PPL's principal subsidiaries at December 31, 2018 are shown below (* denotes a Registrant).



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

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

PPL Electric Utilities Corporation, headquartered in Allentown, Pennsylvania, is a wholly owned subsidiary of PPL organized in Pennsylvania in 1920 and a regulated public utility that is an electricity transmission and distribution service provider in eastern and central Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that area as a PLR under the Customer Choice Act.

LG&E and KU Energy LLC, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of PPL and a holding company that owns regulated utility operations through its subsidiaries, LG&E and KU, which constitute substantially all of LKE's assets. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain separate corporate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name. LKE, formed in 2003, is the successor to a Kentucky entity incorporated in 1989.

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Louisville Gas and Electric Company, headquartered in Louisville, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity and distribution and sale of natural gas in Kentucky. LG&E is subject to regulation as a public utility by the KPSC, and certain of its transmission activities are subject to the jurisdiction of the FERC under the Federal Power Act. LG&E was incorporated in 1913.

Kentucky Utilities Company, headquartered in Lexington, Kentucky, is a wholly owned subsidiary of LKE and a regulated utility engaged in the generation, transmission, distribution and sale of electricity in Kentucky and Virginia. KU is subject to regulation as a public utility by the KPSC and the VSCC, and certain of its transmission and wholesale power activities are subject to the jurisdiction of the FERC under the Federal Power Act. KU serves its Kentucky customers under the KU name and its Virginia customers under the Old Dominion Power name. KU was incorporated in Kentucky in 1912 and in Virginia in 1991.

Segment Information

(PPL)

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

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

	U.K. Regulated	Kentucky Regulated	Pennsylvania Regulated
For the year ended December 31, 2018:			
Operating Revenues (in billions)	\$ 2.3	\$ 3.2	\$ 2.3
Net Income (in millions)	\$ 1,114	\$ 411	\$ 431
Electricity delivered (GWh)	74,181	33,650	37,497
December 31, 2018:			
Regulatory Asset Base (in billions) (a)	\$ 9.7	\$ 9.8	\$ 6.9
Service area (in square miles)	21,600	9,400	10,000
End-users (in millions)	7.9	1.3	1.4

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

See Note 2 to the Financial Statements for additional financial information about the segments.

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

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

• U.K. Regulated Segment (PPL)

Consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from British pound sterling into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and acquisition-related financing costs.

WPD operates four of the 14 Ofgem regulated DNOs providing electricity service in the U.K. through indirect wholly owned subsidiaries: WPD (South West), WPD (South Wales), WPD (East Midlands) and WPD (West Midlands). The number of network customers (end-users) served by WPD totals 7.9 million across 21,600 square miles in south Wales and southwest and central England.

Revenues, in millions, for the years ended December 31 are shown below.

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	2018	2017	2016
Operating Revenues (a)	\$ 2,268	\$ 2,091	\$ 2,207

(a) WPD's Operating Revenues are translated from GBP to U.S. dollars using the average GBP to U.S. dollar exchange rates in effect each month. The annual weighted average of the monthly GBP to U.S. dollar exchange rates used for the years ended December 31, 2018, 2017 and 2016 were \$1.34 per GBP, \$1.28 per GBP and \$1.37 per GBP.

Franchise and Licenses

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

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

Competition

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

Customers

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

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

U.K. Regulation and Rates

Overview

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

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

Key Ratemaking Mechanisms

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

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Current Price Control: RIIO-ED1

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

The RIIO framework allowed for an MPR. On April 30, 2018, Ofgem announced its decision not to conduct an MPR of the RIIO-ED1 price control period.

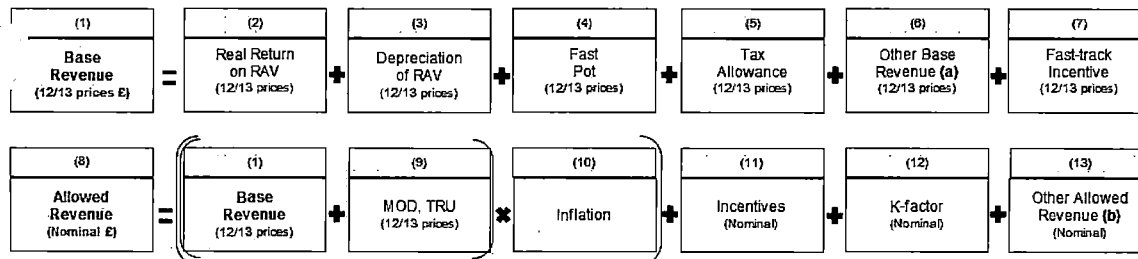
In coordination with numerous stakeholders, WPD developed its business plans for RIIO-ED1 building off its historical track record and long-term strategy of delivering industry-leading levels of performance at an efficient level of cost. As a result, all four of WPD's DNOs' business plans were accepted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

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

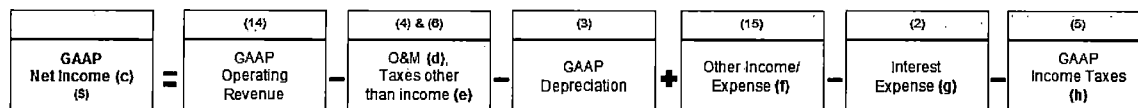
- Totex - £8.5 billion (£6.8 billion recovered as additions to RAV over time ("Slow pot"); £1.7 billion recovered in the year spent in the plan ("Fast pot"));
- Pension deficit funding - £1.2 billion;
- Cost of debt recovery - £1.0 billion;
- Pass Through Charges - £1.6 billion (Property taxes, Ofgem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

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

Regulatory - year ending March 31



GAAP - calendar year converted to U.S. dollars



- (a) Primarily pension deficit funding, pass through costs, profiling adjustments and legacy price control adjustments.
- (b) Primarily pass through true-ups and £5 per residential customer reduction completed in the regulatory year ended March 31, 2017.
- (c) Reference Form 8-K filed February 14, 2019 for U.K. Regulated Segment GAAP Statement of Income component values.
- (d) Includes the service cost component of GAAP pension costs/income. See "Defined Benefits, Net periodic defined benefit costs (credits)" in Note 11 to the Financial Statements.
- (e) Primarily property taxes.
- (f) Primarily includes the non-service cost (credit) components of GAAP pension costs/income and gains and losses on foreign currency hedges.
- (g) Includes WPD interest and \$32 million of allocated interest expense to finance the acquisition of WPD Midlands.
- (h) GAAP income taxes represent an effective tax rate of 17% for 2018, 19% for 2017, 16% for 2016 and approximately 17% going forward.

Base Revenue

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

- a return on capital from RAV;
- a return of capital from RAV (i.e., depreciation);
- the Fast pot recovery, see discussion "(4) Expenditure efficiency mechanisms" below;
- an allowance for cash taxes paid less a potential reduction for tax benefits from excess leverage if a DNO is levered more than 65% Debt/RAV;
- pension deficit funding;
- certain pass-through costs over which the DNO has no control;
- profiling adjustments, see discussion "(6) Other revenue included in base revenue" below;
- certain legacy price control adjustments from preceding price control periods, including the information quality incentive (also known as the rolling RAV incentive); and
- fast-track incentive - because WPD's four DNOs were fast-tracked through the price control review process for RIIO-ED1, their base revenue also includes the fast-track incentive.

(2) Real Return on capital from RAV

Real-time returns on cost of regulated equity (real) - Ofgem establishes an allowed return on regulated equity that DNOs earn in their base business plan revenues as a consideration of the financial parameters for each RIIO-ED1 business plan. For WPD, the base cost of equity collected in revenues was set at 6.4% (real). Base equity returns exclude inflation adjustments, allowances for incentive rewards/penalties and over/under collections driven by cost efficiencies. WPD's base equity returns are calculated using an equity ratio of 35% of RAV at the DNO. The equity ratio was reviewed and set during the RIIO-ED1 business plan process taking various stakeholder impacts into consideration such as costs to consumers, credit ratings and investor needs. The amounts of base real equity return for 2018, 2017 and 2016 were £160 million, £151 million and £144 million.

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

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

Over the 8-year RIIO-ED1 period WPD is expected to under-recover its cost of debt at the four DNOs, based upon the latest inflation assumptions and projected 10-year iBoxx bond indices rates, by approximately £175 million primarily driven by the previously discussed differing cost of debt recovery calculations. Under the terms of the fast track process, fast tracked companies were not supposed to be disadvantaged financially to slow track companies. It is uncertain, however, at this time, if WPD will be able to recover any of this under-recovery in the next price control period, RIIO-ED2, beginning April 1, 2023.

Interest costs relating to long-term debt issued at WPD's holding companies are not recovered in revenues and for 2018, 2017 and 2016 were approximately £46 million, £49 million and £54 million.

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

Compared to asset lives established for GAAP, asset lives established for ratemaking are set by Ofgem based on economic lives which results in improved near-term revenues and cash flows for DNOs during investment cycles. Under U.K. regulation prior to RIIO-ED1, electric distribution assets were depreciated on a 20-year asset life for the purpose of setting revenues. After

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view and consultation, Ofgem decided to use 45-year asset lives for RAV additions after April 1, 2015, with transitional arrangements available for DNOs that fully demonstrated a need to ensure a financeable plan. WPD adopted a transition that has a linear increase in asset lives from 20 to 45 years for additions to RAV in each year of RIIO-ED1 (with additions averaging a life of approximately 35 years over this period), which adds support to its credit metrics. RAV additions prior to March 31, 2015 continue to be recovered in revenues over 20 years.

The asset lives used to determine depreciation expense for GAAP purposes are not the same as those used for the depreciation of the RAV in setting revenues and, as such, vary by asset type and are based on the expected useful lives of the assets. Effective January 1, 2015, after completing a review of the useful lives of its distribution network assets, WPD set the weighted average useful lives to 69 years for GAAP depreciation expense.

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

This regulatory construct, in combination with the different assets lives used for ratemaking and GAAP, results in amounts collected by WPD as recovery of depreciation in revenues being significantly higher than the amounts WPD recorded for depreciation expense under GAAP. For 2018, 2017 and 2016, this difference was £444 million, £424 million and £415 million (pre-tax) and positively impacted net income. The difference is expected to continue in the £400 million to £450 million (pre-tax) range at least through 2022 (the last full calendar year of RIIO-ED1), assuming RPI of approximately 3.0% per year from 2019 through 2022 and based on expected RAV additions of approximately £800 million per year to prepare the distribution system for future U.K. energy objectives while maintaining premier levels of reliability and customer service.

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

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

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

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

	2018	2017	2016
Taxes collected in revenues	£ 58	£ 57	£ 53
Taxes recorded under GAAP	156	139	119

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

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

In addition, WPD recovers approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans in conjunction with actual costs similar to the Fast pot mechanism. The pension deficit is determined by the pension trustees on a triennial basis in accordance with their funding requirements. Pension deficit funding recovered in revenues was £147 million, £142 million and £139 million in 2018, 2017 and 2016. WPD expects similar amounts to be collected in revenues through

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March 31, 2021, but cannot predict amounts that will be collected in revenues beyond then as the plans are approaching a fully funded status. The next biennial pension review will commence in March 2019 and is expected to conclude by the end of 2020.

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

Recovery of pass through costs - WPD recovers certain pass-through costs over which the DNO has no control such as property taxes, National Grid transmission charges and Ofgem fees. Although these items are intended to be pass-through charges there could be timing differences, primarily related to property taxes, as to when amounts are collected in revenues and when amounts are expensed in the Statements of Income. WPD over-collected property taxes by £38 million, £19 million and £8 million in 2018, 2017 and 2016. WPD expects to continue to over-recover property taxes until the end of RIIO-ED1. Amounts under-or over-recovered in revenues in a regulatory year are trued up through revenues two regulatory years later.

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

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

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

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

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

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

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

- The MOD provided by Ofgem in November 2016 included the TIM for the 2015/16 regulatory year, as well as the cost of debt calculation based on the 10-year trailing average to October 2016. This MOD of £12 million reduced base revenue in calendar years 2017 and 2018 by £8 million and £4 million.
- The MOD provided by Ofgem in November 2017 for the 2016/17 regulatory year is a £39 million reduction to revenue and reduced base revenue in calendar year 2018 by £26 million and will reduce base revenue in calendar year 2019 by £13 million.
- The MOD provided by Ofgem in November 2018 for the 2017/18 regulatory year is a £42 million reduction to revenue and will reduce base revenue in calendar years 2019 and 2020 by £28 million and £14 million.
- The projected MOD for the 2018/19 regulatory year is a £87 million reduction to revenue and is expected to reduce base revenue in calendar years 2020 and 2021 by £58 million and £29 million.

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

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- The TRU for the 2015/16 regulatory year was a £31 million reduction to revenue and reduced base revenue in calendar years 2017 and 2018 by £21 million and £10 million.
- The TRU for the 2016/17 regulatory year was a £6 million reduction to revenue and reduced base revenue in calendar year 2018 by £4 million and will reduce base revenue in calendar year 2019 by £2 million.
- The TRU for the 2017/18 regulatory year was a £4 million increase to revenue and will increase base revenue in calendar years 2019 and 2020 by £3 million and £1 million.
- The projected TRU for the 2018/19 regulatory year is a £3 million increase to revenue and is expected to increase base revenue in calendar years 2020 and 2021 by £2 million and £1 million.

As both MOD and TRU are changes to future base revenues as determined by Ofgem, these adjustments are recognized as a component of revenues in future years in which service is provided and revenues are collected or returned to customers. PPL's projected earnings per share growth rate through 2020 includes both the TRU and MOD for regulatory years 2015/16, 2016/17 and 2017/18 and the estimated TRU and MOD for 2018/19.

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

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

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

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

Calendar Year Ended Incentive Earned	Incentive Received (in millions)	Calendar Year Ended Incentive Included in Revenue
2014	£ 83	2016
2015	79	2017
2016	76	2018
2017	72	2019
2018 (a)	70-80	2020
2019 (a)	70-80	2021

(a) Reflects projected incentive revenues.

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

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- The K-factor for the 2015/16 regulatory year was a £4 million under-recovery and increased allowed revenue in calendar years 2017 and 2018 by £3 million and £1 million.
- The K-factor for the 2016/17 regulatory year was a £23 million over-recovery and reduced allowed revenue in calendar year 2018 by £15 million and will reduce allowed revenue in calendar year 2019 by £8 million.
- The K-factor for the 2017/18 regulatory year was a £3 million over-recovery and will reduce allowed revenue in calendar years 2019 and 2020 by £2 million and £1 million.
- The projected K-factor for the 2018/19 regulatory year is a £31 million over-recovery and is expected to reduce allowed revenue in calendar years 2020 and 2021 by £21 million and £10 million.

Historically, tariffs have been set a minimum of three months prior to the beginning of the regulatory year (April 1). In February 2015, Ofgem determined that, beginning with the 2017/18 regulatory year, tariffs would be established a minimum of fifteen months in advance. Therefore, in December 2015, WPD was required to establish tariffs for the 2016/17 and 2017/18 regulatory years. This change will potentially increase volatility in future revenue forecasts due to the need to forecast components of allowed revenue including MOD, TRU, K-factor and incentive revenues.

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

In the 2016/17 regulatory year, WPD recovered a £5 per residential network customer reduction given through reduced tariffs in 2014/15. As a result, revenues were positively affected in calendar years 2017 and 2016 by £13 million and £25 million.

(14) GAAP Operating Revenue - Operating revenue under GAAP primarily consists of allowed revenue that has been collected in the calendar year converted to U.S. dollars. It also includes miscellaneous revenue primarily from engineering recharge work and ancillary activity revenue. Engineering recharge is work performed for a third party by WPD which is not for general network maintenance or to increase reliability. Examples are diversions and running new lines and equipment for a new housing complex. Ancillary activity revenue includes revenue primarily from WPD's Telecoms and Property companies. For additional information on ancillary activity revenue, see footnote c in "Item 7. Combined Management's Discussion and Analysis of Financial Conditions and Results of Operation - Reconciliation of Adjusted Gross Margins." The amounts of miscellaneous revenue for 2018, 2017 and 2016 were £115 million, £90 million and £84 million. The margin or profit on these activities; however, was not significant.

(15) Currency Hedging - Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Due to the significant earnings contributed from WPD, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Overview- Financial and Operational Developments - U.K. Membership in European Union" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of U.K. earnings hedging activity.

AAP Accounting implications:

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

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

See "Item 1A. Risk Factors - Risks related to our U.K. Regulated Segment" for additional information on the risks associated with the U.K. Regulated Segment.

RIO-2 Framework

On March 7, 2018, Ofgem issued its consultation document on the RIO-2 framework, which covers all U.K. gas and electricity transmission and distribution price controls. The current electricity distribution price control, RIO-ED1, continues through March 31, 2023 and will not be impacted by this RIO-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 RIO-2 framework consultation was to build on lessons learned from the current price controls while supporting low costs to

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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 its 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.

In December 2018, the promulgation of sector specific price controls began with Ofgem publishing its consultation related to its RIIO-2 price controls for the gas distribution, gas transmission and electricity transmission operators that will be effective from April 2021 to March 2026. This current consultation does not apply directly to electricity distribution network operators although some decisions will be precedent setting. The electricity distribution price control work is 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 engaged in the RIIO-2 process and will be responding to the December 2018 consultation document. 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.

• **Kentucky Regulated Segment (PPL)**

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

(PPL, LKE, LG&E and KU)

LG&E and KU, direct subsidiaries of LKE, are engaged in the regulated generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, also Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. LG&E provides electric service to approximately 414,000 customers in Louisville and adjacent areas in Kentucky, covering approximately 700 square miles in nine counties and provides natural gas service to approximately 328,000 customers in its electric service area and eight additional counties in Kentucky. KU provides electric service to approximately 527,000 customers in 77 counties in central, southeastern and western Kentucky and approximately 28,000 customers in five counties in southwestern Virginia, covering approximately 4,800 non-contiguous square miles. KU also sells wholesale electricity to 10 municipalities in Kentucky under load following contracts.

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Details of operating revenues, in millions, by customer class for the years ended December 31 are shown below.

	2018		2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LKE						
Commercial	\$ 858	27	\$ 854	27	\$ 834	27
Industrial	566	18	603	19	601	19
Residential	1,313	41	1,259	40	1,261	40
Other (a)	293	9	280	9	288	9
Wholesale - municipal	105	3	112	4	116	4
Wholesale - other (b)	79	2	48	1	41	1
Total	\$ 3,214	100	\$ 3,156	100	\$ 3,141	100

(a) Primarily includes revenues from street lighting and other public authorities.

(b) Includes wholesale power and transmission revenues.

	2018		2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
LG&E						
Commercial	\$ 451	30	\$ 453	31	\$ 442	31
Industrial	178	12	187	13	185	13
Residential	661	44	637	44	627	44
Other (a)	133	9	123	8	135	9
Wholesale - other (b)	73	5	53	4	41	3
Total	\$ 1,496	100	\$ 1,453	100	\$ 1,430	100

(a) Primarily includes revenues from street lighting and other public authorities.

(b) Includes wholesale power and transmission revenues. Also includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

	2018		2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
KU						
Commercial	\$ 407	23	\$ 401	23	\$ 392	22
Industrial	388	22	416	24	416	24
Residential	652	37	622	36	634	36
Other (a)	160	9	157	9	153	9
Wholesale - municipal	105	6	112	6	116	7
Wholesale - other (b)	48	3	36	2	38	2
Total	\$ 1,760	100	\$ 1,744	100	\$ 1,749	100

(a) Primarily includes revenues from street lighting and other public authorities.

(b) Includes wholesale power and transmission revenues. Also includes intercompany power sales and transmission revenues, which are eliminated upon consolidation at LKE.

Franchises and Licenses

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

Competition

There are currently no other electric public utilities operating within the electric service areas of LKE. From time to time, bills are introduced into the Kentucky General Assembly which seek to authorize, promote or mandate increased distributed generation, customer choice or other developments. Neither the Kentucky General Assembly nor the KPSC has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of legislative or regulatory actions, if any, regarding industry restructuring and their impact on LKE, which may be significant, cannot currently

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predicted. Virginia, formerly a deregulated jurisdiction, has enacted legislation that implemented a hybrid model of cost-based regulation. KU's operations in Virginia have been and remain regulated.

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

Power Supply

At December 31, 2018, LKE owned, controlled or had a minority ownership interest in generating capacity of 8,017 MW, of which 2,920 MW related to LG&E and 5,097 MW related to KU, in Kentucky, Indiana, and Ohio. See "Item 2. Properties - Kentucky Regulated Segment" for a complete list of LKE's generating facilities.

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

During 2018, LKE's power plants generated the following amounts of electricity.

<u>Fuel Source</u>	<u>GWh</u>		
	<u>LKE</u>	<u>LG&E</u>	<u>KU</u>
Coal (a)	28,742	12,446	16,296
Gas	6,301	1,584	4,717
Hydro	344	191	153
Solar	17	7	10
Total (b)	35,404	14,228	21,176

(a) Includes 859 GWh of power generated by and purchased from OVEC for LKE, 594 GWh for LG&E and 265 GWh for KU.

(b) This generation represents increases for LKE, LG&E and KU of 5.7%, 5% and 6.2% from 2017 output.

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

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

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

In 2016, LG&E and KU completed construction activities and placed into commercial operation a 10 MW solar generating facility at the E.W. Brown generating site. Additionally, LG&E and KU received approval from the KPSC to develop a 4 MW Solar Share facility to service a Solar Share program. The Solar Share program is an optional, voluntary program that allows customers to subscribe capacity in the Solar Share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete. The subscription for the first 500-kilowatt phase was completed in June 2018. Construction of the first section has begun and is expected to be operational in the summer of 2019. LG&E and KU continue to market the program and receive interest from customers for the second 500-kilowatt phase.

Fuel Supply

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

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

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LG&E and KU have entered into coal supply agreements with various suppliers for coal deliveries through 2023 and augment their coal supply agreements with spot market purchases, as needed.

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

To enhance the reliability of natural gas supply, LG&E and KU have secured firm long-term pipeline transport capacity with contracts of various durations from 2019 to 2024 on the interstate pipeline serving Cane Run Unit 7. This pipeline also serves the six simple cycle combustion turbine units located at the Trimble County site as well as four other simple cycle units at the Cane Run and Paddy's Run sites. For the seven simple cycle combustion turbines at the E.W. Brown facility, no firm long-term pipeline transport capacity has been purchased due to the facility being interconnected to two pipelines and some of the units having dual fuel capability.

LG&E and KU have firm contracts for a portion of the natural gas fuel for Cane Run Unit 7 through December 2020. The bulk of the natural gas fuel remains purchased on the spot market.

(PPL, LKE and LG&E)

Natural Gas Distribution Supply

Five underground natural gas storage fields, with a current working natural gas capacity of approximately 15 billion cubic feet (Bcf), are used in providing natural gas service to LG&E's firm sales customers. Natural gas is stored during the summer season for withdrawal during the following winter heating season. Without this storage capacity, LG&E would be required to purchase additional natural gas and pipeline transportation services during winter months when customer demand increases and the prices for natural gas supply and transportation services are expected to be higher. At December 31, 2018, LG&E had 12 Bcf of natural gas stored underground with a carrying value of \$41 million.

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

LG&E purchases natural gas supply transportation services from two pipelines. LG&E has contracts with one pipeline that are subject to termination by LG&E between 2020 and 2023. Total winter season capacity under these contracts is 184,900 MMBtu/day and summer season capacity is 60,000 MMBtu/day. With this same pipeline, LG&E also has another contract for pipeline capacity through 2026 in the amount of 60,000 MMBtu/day during both the winter and summer seasons. LG&E has a single contract with a second pipeline with a total capacity of 20,000 MMBtu/day during both the winter and summer seasons that expires in 2023.

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

(PPL, LKE, LG&E and KU)

Transmission

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

Rates

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

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

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

KU's rates to 10 municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except regulatory assets recorded for AROs related to CCR impoundments, are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets. In April 2014, certain municipalities submitted notices of termination, under the notice period provisions, to cease taking power under the wholesale requirements contracts. KU's service to eight municipalities will terminate effective May 1, 2019.

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%. A number of parties have been granted intervention requests in the proceeding. Data discovery and the filing of written testimony will continue through February 2019 and a hearing is scheduled in March 2019. 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 of \$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.

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, which reduced 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.

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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 September 28, 2018, the KPSC issued an Order on reconsideration, pursuant to LG&E's and KU's petition, 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).

In January 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. In March 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. In May 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 November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. LG&E and KU are currently assessing the Notice of Proposed Rulemaking and are continuing to monitor guidance issued by the FERC. On February 5, 2019, in connection with a separate element of federal and Kentucky state tax reform effects, LG&E and KU filed a request with the FERC to amend their transmission formula rates, effective June 1, 2019, to incorporate reductions to corporate income tax rates as a result of the TCJA and HB 487. LG&E and KU do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

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

Pennsylvania Regulated Segment (PPL)

Consists of PPL Electric, a regulated public utility engaged in the distribution and transmission of electricity.

(PPL and PPL Electric)

PPL Electric delivers electricity to approximately 1.4 million customers in a 10,000-square mile territory in 29 counties of eastern and central Pennsylvania. PPL Electric also provides electricity to retail customers in this territory as a PLR under the Customer Choice Act.

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Details of revenues, in millions, by customer class for the years ended December 31 are shown below.

	2018		2017		2016	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Distribution						
Residential	\$ 1,379	61	\$ 1,351	62	\$ 1,327	61
Industrial	54	2	44	2	42	2
Commercial	368	16	349	16	338	16
Other (a)	(73)	(3)	(36)	(2)	(4)	—
Transmission	549	24	487	22	453	21
Total	\$ 2,277	100	\$ 2,195	100	\$ 2,156	100

(a) Includes regulatory over- or under-recovery reconciliation mechanisms, pole attachment revenues and street lighting, offset by contra revenue associated with the network integration transmission service expense.

Franchise, Licenses and Other Regulations

PPL Electric is authorized to provide electric public utility service throughout its service area as a result of grants by the Commonwealth of Pennsylvania in corporate charters to PPL Electric and companies, which it has succeeded and as a result of certification by the PUC. PPL Electric is granted the right to enter the streets and highways by the Commonwealth subject to certain conditions. In general, such conditions have been met by ordinance, resolution, permit, acquiescence or other action by an appropriate local political subdivision or agency of the Commonwealth.

Competition

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

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

Rates and Regulation

Transmission

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

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

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

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

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

Distribution

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

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

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

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

See Note 7 to the Financial Statements for additional information regarding Act 129 and other legislative and regulatory impacts.

PLR

The Customer Choice Act requires Electric Distribution Companies (EDCs), including PPL Electric, or an alternative supplier approved by the PUC to act as a PLR of electricity supply for customers who do not choose to shop for supply with a competitive supplier and provides that electricity supply costs will be recovered by the PLR pursuant to PUC regulations. In 2018, the following average percentages of PPL Electric's customer load were provided by competitive suppliers: 47% of residential, 83% of small commercial and industrial and 98% of large commercial and industrial customers. The PUC continues to favor expanding the competitive market for electricity.

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

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

See Note 7 to the Financial Statements for additional information regarding Act 129 and other legislative and regulatory impacts.

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 that required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates 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 charge a negative surcharge of 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. PPL Electric recorded a \$41 million noncurrent regulatory liability and a corresponding reduction of revenue to be distributed to customers pursuant to a future rate adjustment related to the period January 1, 2018 through June 30, 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. On November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers should include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. PPL Electric is currently assessing the Notice of Proposed Rulemaking and is continuing to monitor guidance issued by the FERC. 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.

(PPL)

Corporate and Other

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

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

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

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

(All Registrants)

SEASONALITY

The demand for and market prices of electricity and natural gas are affected by weather. As a result, the Registrants' operating results in the future may fluctuate substantially on a seasonal basis, especially when unpredictable weather conditions make such fluctuations more pronounced. The pattern of this fluctuation may change depending on the type and location of the facilities owned. See "Environmental Matters" in Note 13 to the Financial Statements for additional information regarding climate change.

FINANCIAL CONDITION

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

CAPITAL EXPENDITURE REQUIREMENTS

See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information concerning projected capital expenditure requirements for 2019 through 2023. See Note 13 to the Financial Statements for additional information concerning the potential impact on capital expenditures from environmental matters.

ENVIRONMENTAL MATTERS

The Registrants are subject to certain existing and developing federal, regional, state and local laws and regulations with respect to air and water quality, land use and other environmental matters. The EPA has issued numerous environmental regulations relating to air, water and waste that directly affect the electric power industry. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2019 through 2023. Also, see "Environmental Matters" in Note 13 to the Financial Statements for additional information and Note 7 to the Financial Statements for information related to the recovery of environmental compliance costs.

EMPLOYEE RELATIONS

At December 31, 2018, PPL and its subsidiaries had the following full-time employees and employees represented by labor unions.

	Total Full-Time Employees	Number of Union Employees	Percentage of Total Workforce
PPL	12,444	5,970	48%
PPL Electric	1,674	1,014	61%
LKE	3,504	781	22%
LG&E	1,028	663	64%
KU	904	118	13%

PPL's domestic workforce has 1,924 employees, or 33%, that are members of labor unions.

WPD has 4,046 employees who are members of labor unions (or 61% of PPL's U.K. workforce). WPD recognizes four unions, the largest of which represents 41% of its union workforce. WPD's Electricity Business Agreement, which covers 3,989 union employees, may be amended by agreement between WPD and the unions and can be terminated with 12 months' notice by either side.

CYBERSECURITY MANAGEMENT

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

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

AVAILABLE INFORMATION

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

ITEM 1A. RISK FACTORS

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

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

(PPL)

Risks related to our U.K. Segment

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

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

PPL's earnings may be adversely affected in the event the U.K. withdraws from the European Union.

In 2018, approximately 61% of PPL's net income was generated from its U.K. businesses. Significant uncertainty continues to exist concerning the financial, economic and other consequences of a withdrawal by the U.K. from the European Union, including the outcome of negotiations between the U.K. and European Union as to the terms of the withdrawal. PPL cannot predict the impact, in either the short-term or long-term, on foreign exchange rates or PPL's financial condition that may be experienced as a result of the actions taken by the U.K. government to withdraw from the European Union, although such impacts could be material.

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

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

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

In RIIO-ED1, WPD's base revenue was established by Ofgem based on 2012/13 prices. Base revenue is subsequently adjusted to reflect any increase or decrease in RPI for each year to determine the amount of revenue WPD can collect in tariffs. The RPI is forecasted annually by HM Treasury and subject to true-up in subsequent years. Consequently, the fluctuations between

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Recasted and actual RPI can result in variances in base revenue. Although WPD also has debt that is indexed to RPI and certain components of operations and maintenance expense are affected by inflation, these may not offset changes in base revenue and timing of such offsets would likely not be correlated precisely with the calendar year in which the variance in demand revenue was initially incurred. Further, as RAV is indexed to RPI under U.K. rate regulations, a reduction in RPI could adversely affect a borrower's debt-to-RAV ratio, potentially limiting future borrowings at WPD's holding company.

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

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

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

WPD recovers approximately 80% of pension deficit funding for certain of WPD's defined benefit pension plans in conjunction with actual costs under the RII0-ED1 price control. The pension deficit is determined by the pension trustees on a triennial basis in accordance with their funding requirements. Pension deficit funding recovered in revenues was £147 million, £142 million and £139 million in 2018, 2017 and 2016. WPD expects similar amounts to be collected in revenues through March 31, 2021, but cannot predict amounts that will be collected in revenues beyond then as the plans are approaching a fully funded status. The next triennial pension review will commence in March 2019 and is expected to conclude by the end of 2020.

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

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

Risks Related to All Segments

(All Registrants)

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

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

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

Changes in tax law, including the December 2017 enactment of the TCJA, as well as the inherent difficulty in quantifying potential tax effects of business decisions could negatively impact our results of operations and cash flows. We are required to make judgments in order to estimate our obligations to taxing authorities. These tax obligations include income, property, gross receipts, franchise, sales and use, employment-related and other taxes. We also estimate our ability to utilize tax benefits and tax credits. Due to the revenue needs of the jurisdictions in which our businesses operate, various tax and fee increases may be proposed or considered. We cannot predict changes in tax law or regulation or the effect of any such changes on our businesses. Any such changes could increase tax expense and could have a significant negative impact on our results of operations and

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cash flows. We have completed or made reasonable estimates of the effects of the TCJA reflected in our December 31, 2018 financial statements, and we continue to evaluate the application of various components of the law in the calculation of income tax expense.

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

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

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

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

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

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

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

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

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

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

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

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

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mand for our energy-related services could be similarly lowered by consumers' preferences or market factors favoring energy efficiency, low-carbon power sources or reduced electricity usage.

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

We are involved in legal proceedings, claims and litigation and periodically are subject to state and federal investigations arising out of our business operations, the most significant of which are summarized in Note 7 to the Financial Statements and in "Legal Matters," "Regulatory Issues" and "Environmental Matters" in Note 13 to the Financial Statements. We cannot predict the ultimate outcome of these matters, nor can we reasonably estimate the costs or liabilities that could potentially result from a negative outcome in each case.

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

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

We may incur liabilities in connection with discontinued operations.

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

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

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

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

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

Although we maintain customary insurance coverage for certain of these risks, no assurance can be given that such insurance coverage will be sufficient to compensate us in the event losses occur.

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

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

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

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

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

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

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

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

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

(PPL and LKE)

Risk Related to Registrant Holding Companies

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

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

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

(PPL Electric, LG&E and KU)

Risks Related to Domestic Regulated Utility Operations

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

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

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

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

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

- the terms and conditions of our service and operations;
- financial and capital structure matters;

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

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

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

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

- approval, licensing and permitting;
- land acquisition and the availability of suitable land;
- skilled labor or equipment shortages;
- construction problems or delays, including disputes with third-party intervenors;
- increases in commodity prices or labor rates; and
- contractor performance.

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

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

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

Risks Specific to Kentucky Regulated Segment

(PPL, LKE, LG&E and KU)

The costs of compliance with, and liabilities under, environmental laws are significant and are subject to continuing changes.

Extensive federal, state and local environmental laws and regulations are applicable to LG&E's and KU's generation business, including its air emissions, water discharges and the management of hazardous and solid wastes, among other business-related activities, and the costs of compliance or alleged non-compliance cannot be predicted but could be material. In addition, our costs may increase significantly if the requirements or scope of environmental laws, regulations or similar rules are expanded or changed. Costs may take the form of increased capital expenditures or operating and maintenance expenses, monetary fines, penalties or forfeitures, operational changes, permit limitations or other restrictions. At some of our older generating facilities it may be uneconomic for us to install necessary pollution control equipment, which could cause us to retire those units. Market prices for energy and capacity also affect this cost-effectiveness analysis. Many of these environmental law considerations are

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so applicable to the operations of our key suppliers or customers, such as coal producers, power producers and industrial power users, and may impact the costs of their products and demand for our services.

Ongoing changes in environmental regulations or their implementation requirements and our related compliance strategies entail a number of uncertainties.

The environmental standards governing LG&E's and KU's businesses, particularly as applicable to coal-fired generation and related activities, continue to be subject to uncertainties due to rulemaking and other regulatory developments, legislative activities and litigation, administrative or permit challenges. Revisions to applicable standards, changes in compliance deadlines and invalidation of rules on appeal may require major changes in compliance strategies, operations or assets and adjustments to prior plans. Depending on the extent, frequency and timing of such changes, the companies may be subject to inconsistent requirements under multiple regulatory programs, compressed windows for decision-making and short compliance deadlines that may require new technologies or aggressive schedules for construction, permitting and other regulatory approvals. Under such circumstances, the companies may face higher risks of unsuccessful implementation of environmental-related business plans, noncompliance with applicable environmental rules, delayed or incomplete rate recovery or increased costs of implementation.

We are subject to operational, regulatory and other risks regarding certain significant developments in environmental regulation affecting coal-fired generation facilities.

Certain regulatory initiatives have been implemented or are under development which could represent significant developments or changes in environmental regulation and compliance costs or risk associated with the combustion of coal as occurs at LG&E's and KU's coal-fired generation facilities. In particular, such developments include the federal Coal Combustion Residuals regulations governing coal by-product storage activities and the federal Effluent Limitations Guidelines governing water discharge activities. Such initiatives have the potential to require significant changes in coal combustion byproduct handling and disposal or water treatment and release facilities and methods from those historically used or currently available. Consequently, such developments may involve increased risks relating to the uncertain cost, efficacy and reliability of new technologies, equipment or methods. Compliance with such regulations could result in significant changes to LG&E's and KU's operations or commercial practices and material additional capital or operating expenditures. Such circumstances could also involve higher risks of compliance violations or of variations in rate or regulatory treatment when compared to existing frameworks.

(PPL, LKE and LG&E)

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

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

Risks Specific to Pennsylvania Regulated Segment

(PPL and PPL Electric)

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

FERC Order 1000, issued in July 2011, establishes certain procedural and substantive requirements relating to participation, cost allocation and non-incumbent developer aspects of regional and inter-regional electric transmission planning activities. The PPL Electric transmission business, operating under a FERC-approved PJM Open Access Transmission Tariff, is subject to

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Competition pursuant to FERC Order 1000 from entities that are not incumbent PJM transmission owners with respect to the construction and ownership of transmission facilities within PJM. Increased competition can result in lower rate base growth.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

None.

ITEM 2. PROPERTIES

U.K. Regulated Segment (PPL)

For a description of WPD's service territory, see "Item 1. Business - General - Segment Information - U.K. Regulated Segment." WPD has electric distribution lines in public streets and highways pursuant to legislation and rights-of-way secured from property owners. At December 31, 2018, WPD's distribution system in the U.K. includes 1,863 substations with a total capacity of 74 million kVA, 55,947 circuit miles of overhead lines and 84,032 underground cable miles.

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

LG&E's and KU's properties consist primarily of regulated generation facilities, electricity transmission and distribution assets and natural gas transmission and distribution assets in Kentucky. The capacity of generation units is based on a number of factors, including the operating experience and physical condition of the units, and may be revised periodically to reflect changed circumstances. The electricity generating capacity at December 31, 2018 was:

Primary Fuel/Plant	Total MW Capacity Summer	LKE	LG&E	KU		
		Ownership or Other Interest in MW	% Ownership or Other Interest	Ownership or Other Interest in MW	% Ownership or Other Interest	
Coal						
Ghent - Units 1- 4	1,919	1,919		100.00	1,919	
Mill Creek - Units 1- 4	1,465	1,465	100.00	1,465		
E.W. Brown - Units 1-3	681	681		100.00	681	
Trimble County - Unit 1 (a)	493	370	75.00	370		
Trimble County - Unit 2 (a)	732	549	14.25	104	60.75	445
OVEC - Clifty Creek (b)	1,164	95	5.63	66	2.50	29
OVEC - Kyger Creek (b)	956	78	5.63	54	2.50	24
	7,410	5,157		2,059		3,098
Natural Gas/Oil						
E.W. Brown Unit 5 (c)	130	130	53.00	69	47.00	61
E.W. Brown Units 6 - 7	292	292	38.00	111	62.00	181
E.W. Brown Units 8 - 11 (c)	484	484			100.00	484
Trimble County Units 5 - 6	318	318	29.00	92	71.00	226
Trimble County Units 7 - 10	636	636	37.00	235	63.00	401
Paddy's Run Units 11 - 12	35	35	100.00	35		
Paddy's Run Unit 13	147	147	53.00	78	47.00	69
Haefling - Units 1 - 2	24	24			100.00	24
Zorn Unit	14	14	100.00	14		
Cane Run Unit 7	662	662	22.00	146	78.00	516
Cane Run Unit 11	14	14	100.00	14		
	2,756	2,756		794		1,962
Hydro						
Ohio Falls - Units 1-8 (d)	64	64	100.00	64		
Dix Dam - Units 1-3	32	32			100.00	32
	96	96		64		32
Solar						
E.W. Brown Solar (e)	8	8	39.00	3	61.00	5
Total	10,270	8,017		2,920		5,097

(a) Trimble County Unit 1 and Trimble County Unit 2 are jointly owned with Illinois Municipal Electric Agency and Indiana Municipal Power Agency. Each owner is entitled to its proportionate share of the units' total output and funds its proportionate share of capital, fuel and other operating costs. See Note 12 to the Financial Statements for additional information.

(b) These units are owned by OVEC. LG&E and KU have a power purchase agreement that entitles LG&E and KU to their proportionate share of these units' total output and LG&E and KU fund their proportionate share of fuel and other operating costs, including debt service. Clifty Creek is located in Indiana and Kyger Creek is located in Ohio. See Note 13 to the Financial Statements for additional information.

There is an inlet air cooling system attributable to these units. This inlet air cooling system is not jointly owned; however, it is used to increase production on the units to which it relates, resulting in an additional 12 MW of capacity for LG&E and an additional 86 MW of capacity for KU.

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In 2019, LKE completed upgrades to the Ohio Falls Hydroelectric Generating Station (Units 1-8), expanding the total generating capacity to 100 megawatts. This unit is a 10 MW facility and achieves such production. The 8 MW solar facility summer capacity rating is reflective of an average expected output across the peak hours during the summer period based on average weather conditions at the solar facility.

For a description of LG&E's and KU's service areas, see "Item 1. Business - General - Segment Information - Kentucky Regulated Segment." At December 31, 2018, LG&E's transmission system included in the aggregate, 45 substations (31 of which are shared with the distribution system) with a total capacity of 8 million kVA and 669 pole miles of lines. LG&E's distribution system included 96 substations (31 of which are shared with the transmission system) with a total capacity of 5 million kVA, 3,887 circuit miles of overhead lines and 2,609 underground cable miles. KU's transmission system included 142 substations (61 of which are shared with the distribution system) with a total capacity of 14 million kVA and 4,067 pole miles of lines. KU's distribution system included 469 substations (61 of which are shared with the transmission system) with a total capacity of 8 million kVA, 14,017 circuit miles of overhead lines and 2,543 underground cable miles.

LG&E's natural gas transmission system includes 4,369 miles of gas distribution mains and 370 miles of gas transmission mains, consisting of 234 miles of gas transmission pipeline, 116 miles of gas transmission storage lines, 19 miles of gas combustion turbine lines and one mile of gas transmission pipeline in regulator facilities. Five underground natural gas storage fields, with a total working natural gas capacity of approximately 15 Bcf, are used in providing natural gas service to ultimate consumers. KU's service area includes an additional 11 miles of gas transmission pipeline providing gas supply to natural gas combustion turbine electricity generating units.

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

LG&E and KU continuously reexamine development projects based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them or pursue other options. In 2016, LG&E and KU received approval from the KPSC to develop a 4 MW Solar Share facility to service a Solar Share program. The Solar Share program is an optional, voluntary program that allows customers to subscribe capacity in the Solar Share facility. Construction is expected to begin, in 500-kilowatt phases, when subscription is complete. The subscription for the first 500-kilowatt phase was completed in June 2018. Construction of the first section has begun and is expected to be operational in the summer of 2019. LG&E and KU continue to market the program and receive interest from customers for the second 500-kilowatt phase.

Pennsylvania Regulated Segment (PPL and PPL Electric)

For a description of PPL Electric's service territory, see "Item 1. Business - General - Segment Information - Pennsylvania Regulated Segment." PPL Electric's electric transmission and distribution lines in public streets and highways pursuant to franchises and rights-of-way secured from property owners. At December 31, 2018, PPL Electric's transmission system includes 50 substations with a total capacity of 30 million kVA and 5,455 circuit miles in service. PPL Electric's distribution system includes 353 substations with a total capacity of 14 million kVA, 36,312 circuit miles of overhead lines and 8,428 underground circuit miles. All of PPL Electric's facilities are located in Pennsylvania. Substantially all of PPL Electric's distribution properties and certain transmission properties are subject to the lien of the PPL Electric 2001 Mortgage Indenture. See Note 8 to the Financial Statements for additional information.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

PPL Corporation

Additional information for this item is set forth in the sections entitled "Quarterly Financial and Dividend Data," "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" and "Shareowner and Investor Information" of this report. At January 31, 2019, there were 53,571 common stock shareowners of record.

There were no purchases by PPL of its common stock during the fourth quarter of 2018.

PPL Electric Utilities Corporation

There is no established public trading market for PPL Electric's common stock, as PPL owns 100% of the outstanding common shares. Dividends paid to PPL on those common shares are determined by PPL Electric's Board of Directors. PPL Electric paid common stock dividends to PPL of \$390 million in 2018 and \$336 million in 2017.

LG&E and KU Energy LLC

There is no established public trading market for LKE's membership interests. PPL owns all of LKE's outstanding membership interests. Distributions on the membership interests are paid as determined by LKE's Board of Directors. LKE made cash distributions to PPL of \$302 million in 2018 and \$402 million in 2017.

Louisville Gas and Electric Company

There is no established public trading market for LG&E's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by LG&E's Board of Directors. LG&E paid common stock dividends to LKE of \$156 million in 2018 and \$192 million in 2017.

Kentucky Utilities Company

There is no established public trading market for KU's common stock, as LKE owns 100% of the outstanding common shares. Dividends paid to LKE on those common shares are determined by KU's Board of Directors. KU paid common stock dividends to LKE of \$246 million in 2018 and \$226 million in 2017.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

PPL Corporation (a) (b)	2018	2017	2016	2015	2014
Income Items (in millions)					
Operating revenues	\$ 7,785	\$ 7,447	\$ 7,517	\$ 7,669	\$ 7,852
Operating income (c)	2,852	2,901	2,936	2,802	2,822
Income from continuing operations after income taxes attributable to PPL shareowners	1,827	1,128	1,902	1,603	1,437
Income (loss) from discontinued operations (net of income taxes) (f)	—	—	—	(921)	300
Net income attributable to PPL shareowners (f)	1,827	1,128	1,902	682	1,737
Balance Sheet Items (in millions)					
Total assets (d)	43,396	41,479	38,315	39,301	48,606
Short-term debt (d)	1,430	1,080	923	916	836
Long-term debt (d)	20,599	20,195	18,326	19,048	18,054
Common equity (d)	11,657	10,761	9,899	9,919	13,628
Total capitalization (d)	33,686	32,036	29,148	29,883	32,518
Financial Ratios					
Return on common equity - % (d)(f)	16.1	10.9	19.2	5.8	13.0
Common Stock Data					
Number of shares outstanding - Basic (in thousands)					
Year-end	720,323	693,398	679,731	673,857	665,849
Weighted-average	704,439	685,240	677,592	669,814	653,504
Income from continuing operations after income taxes available to PPL common shareowners - Basic EPS	\$ 2.59	\$ 1.64	\$ 2.80	\$ 2.38	\$ 2.19
Income from continuing operations after income taxes available to PPL common shareowners - Diluted EPS	\$ 2.58	\$ 1.64	\$ 2.79	\$ 2.37	\$ 2.16
Net income available to PPL common shareowners - Basic EPS	\$ 2.59	\$ 1.64	\$ 2.80	\$ 1.01	\$ 2.64
Net income available to PPL common shareowners - Diluted EPS	\$ 2.58	\$ 1.64	\$ 2.79	\$ 1.01	\$ 2.61
Dividends declared per share of common stock	\$ 1.64	\$ 1.58	\$ 1.52	\$ 1.50	\$ 1.49
Book value per share (d)	\$ 16.18	\$ 15.52	\$ 14.56	\$ 14.72	\$ 20.47
Market price per share	\$ 28.33	\$ 30.95	\$ 34.05	\$ 34.13	\$ 36.33
Dividend payout ratio - % (e)(f)	64	96	55	149	57
Dividend yield - % (g)	5.8	5.1	4.5	4.4	4.1
Price earnings ratio (e)(f)(g)	11.0	18.9	12.2	33.8	13.9
Sales Data - GWh					
Domestic - Electric energy supplied - wholesale	2,461	2,084	2,177	2,241	2,365
Domestic - Electric energy delivered - retail	68,686	65,751	67,474	67,798	68,569
U.K. - Electric energy delivered	74,181	74,317	74,728	75,907	75,813

- (a) The earnings each year were affected by several items that management considers special. See "Results of Operations - Segment Earnings" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of special items in 2018, 2017 and 2016. The earnings for 2015 and 2014 were also affected by the spinoff of PPL Energy Supply and the sale of the Montana hydroelectric generating facilities.
- (b) See "Item 1A. Risk Factors" and Notes 1, 7 and 13 to the Financial Statements for a discussion of uncertainties that could affect PPL's future financial condition.
- (c) 2014 through 2017 reflect the retrospective application of new accounting guidance related to the income statement presentation of net periodic benefit costs adopted by PPL in January 2018. See Note 1 to the Financial Statements for additional information on the adoption of this guidance.
- (d) 2015 reflects the impact of the spinoff of PPL Energy Supply and a \$3.2 billion related dividend.
- (e) Based on diluted EPS.
- (f) 2015 includes an \$879 million loss on the spinoff of PPL Energy Supply, reflecting the difference between PPL's recorded value for the Supply segment and the estimated fair value determined in accordance with GAAP. 2015 also includes five months of Supply segment earnings, compared to 12 months in 2014.
- (g) Based on year-end market prices.

ITEM 6. SELECTED FINANCIAL AND OPERATING DATA

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

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

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

(All Registrants)

This "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" is separately filed by PPL, PPL Electric, LKE, LG&E and KU. Information contained herein relating to any individual Registrant is filed by such Registrant solely on its own behalf, and no Registrant makes any representation as to information relating to any other Registrant. The specific Registrant to which disclosures are applicable is identified in parenthetical headings in italics above the applicable disclosure or within the applicable disclosure for each Registrant's related activities and disclosures. Within combined disclosures, amounts are disclosed for individual Registrants when significant.

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

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

- "Overview" provides a description of each Registrant's business strategy and a discussion of important financial and operational developments.
- "Results of Operations" for all Registrants includes a "Statement of Income Analysis," which discusses significant changes in principal line items on the Statements of Income, comparing 2018 with 2017 and 2017 with 2016. 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 "2019 Outlook" discussion identifies key factors expected to impact 2019 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 forecasted sources and uses of cash and rating agency actions.
- "Financial Condition - Risk Management" provides an explanation of the Registrants' risk management programs relating to market and credit risk.
- "Application of Critical Accounting Policies" provides an overview of the accounting policies that are particularly important to the results of operations and financial condition of the Registrants and that require their management to make significant estimates, assumptions and other judgments of inherently uncertain matters.

Overview

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

Business Strategy

(All Registrants)

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

PPL's strategy, and that of the other Registrants, is to deliver best-in-sector operational performance, invest in a sustainable energy future, maintain a strong financial foundation, and engage and develop its people. PPL's business plan is designed to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base in the U.S. and RAV in the U.K. Rate base growth is being driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities.

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

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

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Financial and Operational Developments - U.K. Membership in European Union" for additional discussion of the U.K. earnings hedging activity.

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

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

Financial and Operational Developments

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.

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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 was eligible to claim in its 2017 federal income tax return; and (3) the related impacts on PPL's 2017 consolidated federal net operating loss to be carried forward to future periods. In addition, the Registrants recorded the tax impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on the changes to deferred tax assets and liabilities resulting from the completed provisional amounts. The completed provisional amounts related to the tax rate reduction had an insignificant impact on the net regulatory liabilities of PPL's U.S. regulated operations. In the fourth quarter of 2018, PPL completed its analysis of the deductibility of executive compensation awarded as of November 2, 2017 and concluded that no material change to the provisional amounts is required. 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 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 December 31, 2018 with respect to all provisional amounts.

In 2018, the IRS issued proposed regulations for certain provisions of the TCJA, including interest deductibility, Base Erosion Anti-Avoidance Tax (BEAT), and Global Intangible Low-Taxed Income (GILTI). PPL has determined that the proposed regulations related to BEAT and GILTI do not materially change PPL's current interpretation of the statutory impact of these rules on the company. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be 2019. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant.

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 to the Financial Statements, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in regulated accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In 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 to the Financial Statements 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.

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K. Membership in European Union (PPL)

The U.K. formally began the process of leaving the European Union (EU) on March 29, 2017 by triggering Article 50 of the Lisbon Treaty. The U.K. has two years from that date to negotiate a withdrawal agreement governing its exit from the EU (Brexit). The U.K. and EU also agreed to a transition period lasting until the end of 2020, during which both parties will negotiate a future trade relationship. The final withdrawal agreement and future trade relationship are subject to ratification by both the U.K. and EU parliaments.

In November 2018, U.K. Prime Minister Theresa May and the EU decided on a withdrawal agreement covering a broad range of issues. On January 15, 2019, the U.K. Parliament voted overwhelmingly to reject this withdrawal agreement. On January 29, 2019, the U.K. Parliament voted on a series of non-binding amendments to influence future Brexit negotiations, directing May to conduct further negotiations with the EU. The EU has said that it is not prepared to renegotiate the existing deal.

Significant uncertainty surrounds the status of negotiations and next steps in the Brexit process. If an agreement is not reached, the default position is that the U.K. will have a disorderly exit from the EU on March 29, 2019. The U.K. may also request an extension of the Article 50 process, subject to approval from the EU's 27 remaining members. The U.K. could also choose to revoke Article 50 and remain in the EU.

PPL believes that its greatest risk related to Brexit is the potential decline in the value of the GBP compared to the U.S. dollar. A decline in the value of the GBP compared to the U.S. dollar will reduce the value of WPD's earnings to PPL.

PPL has executed hedges to mitigate the foreign exchange risk to its U.K. earnings. As of February 6, 2019, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2019 at an average rate of \$1.39 per GBP and 49% hedged for 2020 at an average rate of \$1.49 per GBP.

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

PPL does not expect the financial condition and results of operations of WPD itself to change significantly as a result of Brexit, with or without an approved plan of withdrawal. The regulatory environment and operation of WPD's businesses are not expected to change. WPD is less than halfway through R10-ED1, the current price control period, with allowed revenues agreed with Ofgem through March 2023. The impact of a slower economy or recession on WPD would be mitigated in part because U.K. regulation provides that any reduction in the volume of electricity delivered will be recovered in allowed revenues in future periods through the K-factor adjustment. See "Item 1. Business - Segment Information - U.K. Regulated Segment" for additional information on the current price control and K-factor adjustment. In addition, an increase in inflation would have a positive effect on revenues and RAV as annual inflation adjustments are applied to both revenues and RAV (and real returns are earned on inflated RAV). This impact, however, would be partially offset by higher O&M and interest expense on index-linked debt. With respect to access to financing, WPD has substantial borrowing capacity under existing credit facilities and expects to continue to have access to all major financial markets. With respect to access to and cost of equipment and other materials, WPD management continues to review U.K. government issued advice on preparations for Brexit without an approved plan of withdrawal and has taken actions to mitigate potential increasing costs and disruption to its critical sources of supply. Additionally, less than 1% of WPD's employees are non-U.K. EU nationals and no change in their domicile is expected.

Regulatory Requirements

(All Registrants)

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

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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, which reduced 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 September 28, 2018, the KPSC issued an Order on reconsideration, pursuant to LG&E's and KU's petition, 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).

In January 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. In March 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. In May 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 November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. LG&E and KU are currently assessing the Notice of Proposed Rulemaking and are continuing to monitor guidance issued by the FERC. On February 5, 2019, in connection with a separate element of federal and Kentucky state tax reform effects, LG&E and KU filed a request with the FERC to amend their transmission formula rates, effective June 1, 2019, to incorporate reductions to corporate income tax rates as a result of the TCJA and HB 487. LG&E and KU do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

PL 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 that required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates 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 charge a negative surcharge of 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. PPL Electric recorded a \$41 million noncurrent regulatory liability and a corresponding reduction of revenue to be distributed to customers pursuant to a future rate adjustment related to the period January 1, 2018 through June 30, 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. On November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers should include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. PPL Electric is currently assessing the Notice of Proposed Rulemaking and is continuing to monitor guidance issued by the FERC. 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

In June 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 was August 27, 2018.

Under the new law, a public utility may file an application to establish alternative rates and rate mechanisms in a base rate proceeding. These alternative rates and rate mechanisms include, but are not limited to, the following: decoupling mechanisms, performance-based rates, formula rates, multi-year rate plans, or a combination of those or other mechanisms.

The alternative rate mechanisms may 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.

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PL)

RIIO-ED1 Mid-period Review

The RIIO framework allowed for an MPR. On April 30, 2018, Ofgem announced its decision not to conduct an MPR of the RIIO-ED1 price control period.

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 its 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.

In December 2018, the promulgation of sector specific price controls began with Ofgem publishing its consultation related to its RIIO-2 price controls for the gas distribution, gas transmission and electricity transmission operators that will be effective from April 2021 to March 2026. This current consultation does not apply directly to electricity distribution network operators although some decisions will be precedent setting. The electricity distribution price control work is 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 engaged in the RIIO-2 process and will be responding to the December 2018 consultation document. 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.

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(PL, 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. 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.

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, and ELGs. See Note 7, Note 13 and Note 19 to the Financial Statements for a discussion of these significant environmental matters. These and other stringent environmental requirements led PPL, LKE, LG&E and KU to retire approximately 800 MW of coal-fired generating plants in Kentucky, primarily in 2015. Additionally, KU anticipates retiring two older coal-fired units at the E.W. Brown plant in 2019 with a combined summer rating capacity of 272 MW.

Also as a result of the environmental requirements discussed above, LKE projects \$682 million (\$261 million at LG&E and \$421 million at KU) in environmental capital investment over the next five years. See PPL's "Financial Condition - Forecasted Uses of Cash - Capital Expenditures", Note 7 and Note 13 for additional information.

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 above, 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%. A number of parties have been granted intervention requests in the proceeding. Data discovery and the filing of written testimony will continue through February 2019 and a hearing is scheduled in March 2019. 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 of \$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, 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

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...s completed over 200 solar projects in 19 states, with over 70 projects underway as of December 31, 2018. 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 year-to-year changes. 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 "2019 Outlook" discussion identifies key factors expected to impact 2019 earnings.

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

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

A "Statement of Income Analysis, 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 year-to-year changes. The "Earnings" discussion provides a summary of earnings. The "Adjusted Gross Margins" discussion includes a reconciliation of non-GAAP financial measures to "Operating Income."

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

Statement of Income Analysis

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

	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
Operating Revenues	\$ 7,785	\$ 7,447	\$ 7,517	\$ 338	\$ (70)
Operating Expenses					
Operation					
Fuel	799	759	791	40	(32)
Energy purchases	745	685	706	60	(21)
Other operation and maintenance	1,983	1,802	1,857	181	(55)
Depreciation	1,094	1,008	926	86	82
Taxes, other than income	312	292	301	20	(9)
Total Operating Expenses	4,933	4,546	4,581	387	(35)
Other Income (Expense) - net	396	(88)	502	484	(590)
Interest Expense	963	901	888	62	13
Income Taxes	458	784	648	(326)	136
Net Income	\$ 1,827	\$ 1,128	\$ 1,902	\$ 699	\$ (774)

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Operating Revenues

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

	2018 vs. 2017	2017 vs. 2016
Domestic:		
PPL Electric Distribution price (a)	\$ 3	\$ 53
PPL Electric Distribution volume (b)	55	(21)
PPL Electric PLR (c)	39	(16)
PPL Electric Transmission Formula Rate (d)	62	34
PPL Electric TCJA refund (e)	(79)	—
LKE Volumes (b)	134	(73)
LKE Base rates (f)	58	58
LKE ECR	21	10
LKE TCJA refund (e)	(143)	—
LKE DSM	(16)	3
LKE Fuel and other energy prices	(4)	10
Other	31	(12)
Total Domestic	161	46
U.K.:		
Price	42	60
Volume	(4)	(30)
Foreign currency exchange rates	106	(154)
Engineering recharge income (g)	42	10
Other	(9)	(2)
Total U.K.	177	(116)
Total	\$ 338	\$ (70)

(a) Distribution rider prices resulted in an increase of \$47 million in 2017 compared with 2016.

(b) Increase in 2018 compared with 2017 was primarily due to favorable weather in 2018. Decrease in 2017 compared with 2016 was primarily due to milder weather in 2017.

(c) Increase in 2018 compared with 2017 was primarily due to higher energy purchase volumes.

(d) Transmission Formula Rate revenues increased primarily from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and includes the impacts of the TCJA which reduced the new revenue requirement that went into effect June 1, 2018.

(e) Represents 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.

(f) Increase primarily due to new base rates approved by the KPSC effective July 1, 2017.

(g) These revenues are offset by costs reflected in "Other operation and maintenance" on the Statement of Income.

Fuel

Fuel increased \$40 million in 2018 compared with 2017, primarily due to an increase in volumes at LKE driven by weather in 2018.

Fuel decreased \$32 million in 2017 compared with 2016, primarily due to a decrease in volumes at LKE driven by weather in 2017.

Energy Purchases

Energy purchases increased \$60 million in 2018 compared with 2017 primarily due to an increase of \$37 million at PPL Electric primarily due to higher energy volumes and an increase of \$23 million at LKE primarily due to higher gas volumes driven by weather in 2018.

Energy purchases decreased \$21 million in 2017 compared with 2016 primarily due to a decrease in PLR prices at PPL Electric.

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Other Operation and Maintenance

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

	<u>2018 vs. 2017</u>	<u>2017 vs. 2016</u>
Domestic:		
PPL Electric Act 129	\$ 1	\$ 9
PPL Electric Payroll-related costs	(5)	(14)
PPL Electric Bad debts	11	(17)
PPL Electric Inventory reserve	8	(2)
LKE timing and scope of generation maintenance outages	8	(1)
LKE gas distribution maintenance and compliance	7	3
LKE electricity distribution outage and repairs	7	—
Storm costs	12	4
Vegetation management	5	(15)
Stock compensation expense	(7)	5
Other operation and maintenance of Safari Energy (a)	30	—
Other	23	(10)
U.K.:		
Pension expense	(2)	3
Foreign currency exchange rates	20	(28)
Third-party engineering (b)	35	6
Engineering management	13	3
Other	15	(1)
Total	<u>\$ 181</u>	<u>\$ (55)</u>

(a) The increase in 2018 compared with 2017 primarily represents the other operation and maintenance expense of Safari Energy, which was acquired on June 1, 2018.

(b) These costs are offset by revenues reflected in "Operating Revenues" on the Statement of Income.

Depreciation

The increase (decrease) in depreciation was due to:

	<u>2018 vs. 2017</u>	<u>2017 vs. 2016</u>
Additions to PP&E, net	\$ 65	\$ 93
Foreign currency exchange rates	11	(16)
Depreciation rates (a)	15	15
Other	(5)	(10)
Total	<u>\$ 86</u>	<u>\$ 82</u>

(a) Higher depreciation rates were effective July 1, 2017 at LG&E and KU.

Taxes, Other Than Income

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

	<u>2018 vs. 2017</u>	<u>2017 vs. 2016</u>
State gross receipts tax	\$ —	\$ 3
Domestic property tax expense	5	4
Domestic capital stock tax	6	(6)
Foreign currency exchange rates	7	(8)
Other	2	(2)
Total	<u>\$ 20</u>	<u>\$ (9)</u>

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Other Income (Expense) - net

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

	2018 vs. 2017	2017 vs. 2016
Economic foreign currency exchange contracts (Note 17)	\$ 411	\$ (645)
Defined benefit plans - non-service credits (Note 11)	90	55
Charitable contributions	(16)	1
Other	(1)	(1)
Total	\$ 484	\$ (590)

Interest Expense

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

	2018 vs. 2017	2017 vs. 2016
Long-term debt interest expense (a)	\$ 36	\$ 34
Short-term debt interest	9	7
Foreign currency exchange rates	17	(26)
Other	—	(2)
Total	\$ 62	\$ 13

(a) Interest expense increased in 2018 compared with 2017, primarily due to debt issuances by PPL Electric in June 2018 and May 2017 and by PPL Capital Funding in September 2017.

Interest expense increased in 2017 compared with 2016, primarily due to accretion on Index linked bonds at WPD and a debt issuance at PPL Electric in May 2017.

Income Taxes

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

	2018 vs. 2017	2017 vs. 2016
Change in pre-tax income at current period tax rates	\$ (57)	\$ (223)
Reduction in U.S. federal income tax rate (a)	(138)	—
Valuation allowance adjustments (b)	(15)	20
Foreign income tax return adjustments	8	(10)
U.S. income tax on foreign earnings net of foreign tax credit(c)	(44)	89
Impact of U.K. Finance Acts (d)	3	33
Impact of lower U.K. income tax rates (e)	151	1
Amortization of excess deferred income tax (f)	(37)	—
Deferred tax impact of U.S. tax reform (g)	(220)	220
Deferred tax impact of Kentucky state tax reform (h)	9	—
Stock-based compensation	7	7
Other	7	(1)
Total	\$ (326)	\$ 136

(a) The decrease in 2018 compared with 2017 is 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) During 2017, PPL recorded an increase in valuation allowances of \$23 million primarily related to foreign tax credits recorded in 2016. The future utilization of these credits is expected to be lower as a result of the TCJA.

During 2018, 2017 and 2016, PPL recorded deferred income tax expense of \$24 million, \$16 million and \$13 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

(c) During 2017, PPL recorded a federal income tax benefit of \$35 million primarily attributable to UK pension contributions.

During 2017, PPL recorded deferred income tax expense of \$83 million primarily related to enactment of the TCJA. The enacted tax law included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately \$462 million, including \$205 million of foreign tax credits. As the PPL consolidated U.S. group had a taxable loss for 2017,

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inclusive of the taxable deemed dividend, these credits were recorded as a deferred tax asset. However, it is expected that under the TCJA, only \$83 million of the \$205 million of foreign tax credits will be realized in the carry forward period. Accordingly, a valuation allowance on the current year foreign tax credits in the amount of \$122 million has been recorded to reflect the reduction in the future utilization of the credits. The foreign tax credits associated with the deemed repatriation result in a gross carryforward and corresponding deferred tax asset of \$205 million offset by a valuation allowance of \$122 million.

During 2016, PPL recorded a federal income tax benefit of \$40 million attributable to the foreign tax credit carryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the company's most recent business plan.

- (d) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a \$42 million deferred income tax benefit during 2016.
- (e) The reduction in the U.S. federal corporate income tax rate from 35% to 21% significantly reduced the difference between the U.K. and U.S. income tax rates in 2018 compared with 2017.
- (f) During 2018, PPL recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
- (g) During 2017, PPL recorded deferred income tax expense for the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
- (h) During 2018, PPL recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

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

Segment Earnings

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

	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
U.K. Regulated	\$ 1,114	\$ 652	\$ 1,246	\$ 462	\$ (594)
Kentucky Regulated	411	286	398	125	(112)
Pennsylvania Regulated	431	359	338	72	21
Corporate and Other (a)	(129)	(169)	(80)	40	(89)
Net Income	\$ 1,827	\$ 1,128	\$ 1,902	\$ 699	\$ (774)

- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The increase in 2018 compared with 2017 was primarily due to lower income tax expense of \$82 million, partially offset by higher interest expense of \$15 million, Talen Montana litigation costs of \$9 million and higher charitable contributions of \$6 million. 2017 includes \$97 million of additional income tax expense related to the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.

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).
- Spinoff of the Supply segment.
- Gains and losses on sales of assets not in the ordinary course of business.
- Impairment charges.
- Significant workforce reduction and other restructuring effects.
- Acquisition and divestiture-related adjustments.
- Other charges or credits that are, in management's view, non-recurring or otherwise not reflective of the company's ongoing operations.

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Realized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of PPL's underlying hedged earnings. See Note 17 to the Financial Statements and "Risk Management" below for additional information on foreign currency economic activity.

PPL's Earnings from Ongoing Operations by reportable segment were as follows:

	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
U.K. Regulated	\$ 968	\$ 885	\$ 1,015	\$ 83	\$ (130)
Kentucky Regulated	418	395	398	23	(3)
Pennsylvania Regulated	436	349	338	87	11
Corporate and Other	(117)	(76)	(77)	(41)	1
Earnings from Ongoing Operations	\$ 1,705	\$ 1,553	\$ 1,674	\$ 152	\$ (121)

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 61% of PPL's Net Income for 2018 and 38% of PPL's assets at December 31, 2018.

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

	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
Operating revenues	\$ 2,268	\$ 2,091	\$ 2,207	\$ 177	\$ (116)
Other operation and maintenance	538	449	465	89	(16)
Depreciation	247	230	233	17	(3)
Taxes, other than income	134	127	135	7	(8)
Total operating expenses	919	806	833	113	(27)
Other Income (Expense) - net	403	(84)	507	487	(591)
Interest Expense	413	397	402	16	(5)
Income Taxes	225	152	233	73	(81)
Net Income	1,114	652	1,246	462	(594)
Less: Special Items	146	(233)	231	379	(464)
Earnings from Ongoing Operations	\$ 968	\$ 885	\$ 1,015	\$ 83	\$ (130)

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

	Income Statement Line Item	2018	2017	2016
Foreign currency economic hedges, net of tax of (\$39), \$59, \$4 (a)	Other Income (Expense) - net	\$ 148	\$ (111)	\$ (8)
U.S. tax reform (b)	Income Taxes	3	(122)	—
Settlement of foreign currency contracts, net of tax of \$0, \$0, (\$108) (c)	Other Income (Expense) - net	—	—	202
Change in U.K. tax rate (d)	Income Taxes	—	—	37
Death benefit, net of tax of \$1, \$0, \$0 (e)	Other operation and maintenance	(5)	—	—
Total		\$ 146	\$ (233)	\$ 231

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings. 2016 includes the reversal of \$310 million (\$202 million after-tax) of unrealized gains related to the settlement of 2017 and 2018 contracts.

(b) During 2018, PPL recorded adjustments to certain provisional amounts recognized in the December 31, 2017 Statement of Income relating to the enactment of the TCJA.

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During 2017, PPL recorded deferred income tax expense for the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.

In 2016, PPL settled 2017 and 2018 foreign currency contracts, resulting in \$310 million of cash received (\$202 million after-tax). The settlement did not have a material impact on net income as the contracts were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income. See Note 17 to the Financial Statements for additional information.

- (d) The U.K. Finance Act of 2016 reduced the U.K.'s statutory income tax rate. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in 2016. See Note 6 to the Financial Statements for additional information.
- (e) Primarily a payment related to the death of the WPD Chief Executive.

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

	2018 vs. 2017	2017 vs. 2016
U.K.		
Adjusted Gross Margins	\$ 39	\$ 30
Other operation and maintenance	(18)	(5)
Depreciation	(6)	(14)
Other Income (Expense) - net	63	69
Interest expense	1	(21)
Other	(4)	(6)
Income taxes	(23)	11
U.S.		
Interest expense and other	(8)	1
Income taxes	(48)	(10)
Foreign currency exchange, after-tax	87	(185)
Earnings from Ongoing Operations	83	(130)
Special items, after-tax	379	(464)
Net Income	\$ 462	\$ (594)

U.K.

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of U.K. Adjusted Gross Margins.
- Higher depreciation expense in 2017 compared with 2016 primarily due to additions to PP&E, net of retirements.
- Higher other income (expense) - net in 2018 compared with 2017 primarily due to higher pension income due to an increase in expected returns on higher asset balances.
- Higher other income (expense) - net in 2017 compared with 2016 primarily due to higher pension income due to an increase in expected returns on higher asset balances and lower interest costs due to a lower discount rate.
- Higher interest expense in 2017 compared with 2016 primarily due to higher interest expense on indexed linked bonds.
- Higher income taxes in 2018 compared with 2017 primarily due to higher pre-tax income.
- Lower income taxes in 2017 compared with 2016 primarily due to decreases of \$10 million related to accelerated tax deductions and \$7 million from lower U.K. tax rates, partially offset by an increase of \$11 million from higher pre-tax income.

U.S.

- Higher income taxes in 2018 compared with 2017 primarily due to a \$35 million tax benefit on accelerated pension contributions in the first quarter of 2017 and a \$16 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.

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Higher income taxes in 2017 compared with 2016 primarily due to a \$37 million benefit related to foreign tax credit carryforwards in 2016, partially offset by a \$29 million tax benefit on accelerated pension contributions made in the first quarter of 2017.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment. The Kentucky Regulated segment represents 22% of PPL's Net Income for 2018 and 35% of PPL's assets at December 31, 2018.

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

	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
Operating revenues	\$ 3,214	\$ 3,156	\$ 3,141	\$ 58	\$ 15
Fuel	799	759	791	40	(32)
Energy purchases	201	178	171	23	7
Other operation and maintenance	848	801	798	47	3
Depreciation	475	439	404	36	35
Taxes, other than income	70	65	62	5	3
Total operating expenses	2,393	2,242	2,226	151	16
Other Income (Expense) - net	(16)	(8)	(15)	(8)	7
Interest Expense	274	261	260	13	1
Income Taxes	120	359	242	(239)	117
Net Income	411	286	398	125	(112)
Less: Special Items	(7)	(109)	—	102	(109)
Earnings from Ongoing Operations	\$ 418	\$ 395	\$ 398	\$ 23	\$ (3)

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

	Income Statement Line Item	2018	2017	2016
U.S. tax reform (a)	Income Taxes	\$ 2	\$ (112)	\$ —
Kentucky state tax reform (b)	Income Taxes	(9)	—	—
Adjustment to investment, net of tax of \$0, \$0, \$0 (c)	Other Income (Expense) - net	—	(1)	—
Settlement of indemnification agreement, net of tax of \$0, (\$2), \$0 (d)	Other Income (Expense) - net	—	4	—
Total		\$ (7)	\$ (109)	\$ —

- (a) During 2018, LKE recorded adjustments to certain provisional amounts associated with LKE's non-regulated entities recognized in the December 31, 2017 Statement of Income relating to the enactment of the TCJA. During 2017, LKE recorded deferred income tax expense related to the enactment of the TCJA associated with LKE's non-regulated entities. See Note 6 to the Financial Statements for additional information.
- (b) During 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) KU recorded a write-off of an equity method investment.
- (d) Recorded at LKE and represents the settlement of a WKE indemnification. See Note 13 to the financial statements for additional information.

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

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	2018 vs. 2017	2017 vs. 2016
Kentucky Adjusted Gross Margins	\$ 3	\$ 29
Other operation and maintenance	(60)	(1)
Depreciation	(30)	(27)
Taxes, other than income	(6)	(2)
Other Income (Expense) - net	(3)	2
Interest Expense	(13)	(1)
Income Taxes	132	(3)
Earnings from Ongoing Operations	23	(3)
Special Items, after-tax	102	(109)
Net Income	\$ 125	\$ (112)

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Kentucky Adjusted Gross Margins.
- Higher other operation and maintenance expense in 2018 compared with 2017 primarily due to an \$8 million increase in vegetation management, an \$8 million increase in timing and scope of generation maintenance outages, a \$7 million increase in gas distribution maintenance and compliance, a \$7 million increase in electricity distribution outage and repairs and increases in other costs that were not individually significant in comparison to the prior year.
- Higher depreciation expense in 2018 compared with 2017 primarily due to a \$16 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 depreciation expense in 2017 compared with 2016 primarily due to a \$15 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 in 2018 compared with 2017 primarily due to increased borrowings under LG&E's term loan credit facility and from affiliates.
- Lower income taxes in 2018 compared with 2017 primarily due to a \$74 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 \$42 million decrease related to lower pre-tax income and an \$18 million decrease primarily 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 2018 and 26% of PPL's assets at December 31, 2018.

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

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	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
Operating revenues	\$ 2,277	\$ 2,195	\$ 2,156	\$ 82	\$ 39
Energy purchases	544	507	535	37	(28)
Other operation and maintenance	578	572	604	6	(32)
Depreciation	352	309	253	43	56
Taxes, other than income	109	107	105	2	2
Total operating expenses	1,583	1,495	1,497	88	(2)
Other Income (Expense) - net	32	17	20	15	(3)
Interest Expense	159	142	129	17	13
Income Taxes	136	216	212	(80)	4
Net Income	431	359	338	72	21
Less: Special Items	(5)	10	—	(15)	10
Earnings from Ongoing Operations	\$ 436	\$ 349	\$ 338	\$ 87	\$ 11

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

	Income Statement Line Item	2018	2017	2016
IT transformation, net of tax of \$2, \$0, \$0 (a)	Other operation and maintenance	\$ (5)	\$ —	\$ —
U.S. tax reform (b)	Income Taxes	—	10	—
Total		\$ (5)	\$ 10	\$ —

- (a) In June 2018, PPL EU Services' IT department announced an internal reorganization. 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 13 to the Financial Statements for additional information.
- (b) During 2017, PPL recorded a deferred income tax benefit for the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.

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

	2018 vs. 2017	2017 vs. 2016
Pennsylvania Adjusted Gross Margins	\$ 28	\$ 31
Other operation and maintenance	3	44
Depreciation	(30)	(35)
Taxes, other than income	—	1
Other Income (Expense) - net	15	(3)
Interest Expense	(17)	(13)
Income Taxes	88	(14)
Earnings from Ongoing Operations	87	11
Special Items, after-tax	(15)	10
Net Income	\$ 72	\$ 21

- See "Adjusted Gross Margins - Changes in Adjusted Gross Margins" for an explanation of Pennsylvania Adjusted Gross Margins.
- Lower other operation and maintenance expense in 2018 compared with 2017 primarily due to \$36 million of lower corporate service costs allocated to PPL Electric, partially offset by \$11 million of higher non-recoverable storm expenses and \$11 million of higher bad debt expense.
- Lower other operation and maintenance expense in 2017 compared with 2016 primarily due to \$17 million of lower bad debt expense, \$17 million of lower vegetation management expenses and \$14 million of lower payroll expenses, partially offset by \$19 million of higher corporate service costs allocated to PPL Electric.

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Higher depreciation expense in 2018 compared with 2017 and 2017 compared with 2016 primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements.

- Higher interest expense in 2018 compared with 2017 primarily due to the May 2017 issuance of \$475 million of 3.95% First Mortgage Bonds and the June 2018 issuance of \$400 million of 4.15% First Mortgage Bonds.
- Higher interest expense in 2017 compared with 2016 primarily due to the issuance of \$475 million of 3.95% First Mortgage Bonds in May 2017.
- Lower income taxes in 2018 compared with 2017 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 \$71 million and \$18 million of lower income taxes due to amortization of excess deferred income taxes.
- Higher income taxes in 2017 compared with 2016 primarily due to higher pre-tax income at current period tax rates.

Reconciliation of Earnings from Ongoing Operations

The following tables contain after-tax gains (losses), in total, which management considers special items, that are excluded from Earnings from Ongoing Operations and a reconciliation to PPL's "Net Income" for the years ended December 31.

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

- (a) During 2018, PPL recorded adjustments to certain provisional amounts recognized in the December 31, 2017 Statement of Income relating to the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.
- (b) During 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) During 2018, PPL incurred legal expenses related to litigation with its former affiliate, Talen Montana. See Note 13 to the Financial Statements for additional information.

	2017				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 652	\$ 286	\$ 359	\$ (169)	\$ 1,128
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$59	(111)	—	—	—	(111)
Spinoff of the Supply segment, net of tax of (\$1)	—	—	—	4	4
U.S. tax reform (a)	(122)	(112)	10	(97)	(321)
Settlement of indemnification agreement, net of tax (\$2)	—	4	—	—	4
Adjustment to investment, net of tax of \$0	—	(1)	—	—	(1)
Total Special Items	(233)	(109)	10	(93)	(425)
Earnings from Ongoing Operations	\$ 885	\$ 395	\$ 349	\$ (76)	\$ 1,553

- (a) During 2017, PPL recorded deferred income tax (expense) benefit related to the enactment of the TCJA. See Note 6 to the Financial Statements for additional information.

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	2016				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
Net Income	\$ 1,246	\$ 398	\$ 338	\$ (80)	\$ 1,902
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$4	(8)	—	—	—	(8)
Spinoff of the Supply segment, net of tax of \$2	—	—	—	(3)	(3)
Settlement of foreign currency contracts, net of tax of (\$108)	202	—	—	—	202
Change in U.K. tax rate	37	—	—	—	37
Total Special Items	231	—	—	(3)	228
Earnings from Ongoing Operations	\$ 1,015	\$ 398	\$ 338	\$ (77)	\$ 1,674

Adjusted Gross Margins

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

- "U.K. Adjusted Gross Margins" is a single financial performance measure of the electricity distribution operations of the U.K. Regulated segment. In calculating this measure, direct costs such as connection charges from National Grid, which owns and manages the electricity transmission network in England and Wales, and Ofgem license fees (recorded in "Other operation and maintenance" on the Statements of Income) are deducted from operating revenues, as they are costs passed through to customers. As a result, this measure represents the net revenues from the delivery of electricity across WPD's distribution network in the U.K. and directly related activities.
- "Kentucky Adjusted Gross Margins" is a single financial performance measure of the electricity generation, transmission and distribution operations of the Kentucky Regulated segment, 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.

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Changes in Adjusted Gross Margins

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

	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
U.K. Regulated					
U.K. Adjusted Gross Margins	\$ 2,089	\$ 1,952	\$ 2,067	\$ 137	\$ (115)
Impact of changes in foreign currency exchange rates				98	(145)
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates				\$ 39	\$ 30
Kentucky Regulated					
Kentucky Adjusted Gross Margins					
LG&E	\$ 922	\$ 910	\$ 887	\$ 12	\$ 23
KU	1,119	1,128	1,122	(9)	6
Total Kentucky Adjusted Gross Margins	\$ 2,041	\$ 2,038	\$ 2,009	\$ 3	\$ 29
Pennsylvania Regulated					
Pennsylvania Adjusted Gross Margins					
Distribution	\$ 924	\$ 958	\$ 960	\$ (34)	\$ (2)
Transmission	549	487	454	62	33
Total Pennsylvania Adjusted Gross Margins	\$ 1,473	\$ 1,445	\$ 1,414	\$ 28	\$ 31

U.K. Adjusted Gross Margins

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased in 2018 compared with 2017 primarily due to \$2 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.

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased in 2017 compared with 2016 primarily due to \$81 million from the April 1, 2016 price increase, partially offset by \$30 million from lower volumes and \$21 million from the April 1, 2017 price decrease, which includes lower true-up mechanisms partially offset by higher base demand revenue.

Kentucky Adjusted Gross Margins

Kentucky Adjusted Gross Margins increased in 2018 compared with 2017 primarily due to \$63 million of increased sales volumes related to favorable weather in 2018 (\$23 million at LG&E and \$40 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, returns on additional environmental capital investments of \$19 million (\$12 million at LG&E and \$7 million at KU) and other factors that were not individually significant in comparison to the prior year, partially offset by \$143 million of income tax savings owed to customers (\$67 million at LG&E and \$76 million at KU) related to the impact of U.S. federal corporate income tax rate reduction from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.

Kentucky Adjusted Gross Margins increased in 2017 compared with 2016 primarily due to 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 gas cost recoveries added to base rates of \$5 million at LG&E, partially offset by \$41 million of lower sales volumes due to milder weather in 2017 (\$15 million at LG&E and \$26 million at KU).

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Pennsylvania Adjusted Gross Margins

Distribution

Distribution Adjusted Gross Margins decreased in 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 \$38 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 \$43 million of higher electricity sales volumes primarily due to weather.

Distribution Adjusted Gross margins decreased in 2017 compared with 2016 primarily due to \$10 million of lower electricity sales volumes due to milder weather in 2017, partially offset by \$7 million of returns on additional Smart Meter capital investments.

Transmission

Transmission Adjusted Gross Margins increased in 2018 compared with 2017 primarily due to increases of \$78 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 annual PPL zonal peak load billing factor in the first five months of 2018, partially offset by \$38 million from the impact of the reduced federal income taxes as a result of the TCJA.

Transmission Adjusted Gross Margins increased in 2017 compared with 2016 primarily due to an increase of \$51 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by a \$17 million decrease as a result of a lower annual PPL zonal peak load billing factor which affected transmission revenue in the first five months of 2017.

Reconciliation of Adjusted Gross Margins

The following tables contain the components from the Statement of Income that are included in the non-GAAP financial measures and a reconciliation to PPL's "Operating Income" for the years ended December 31.

	2018				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,230 (c)	\$ 3,214	\$ 2,277	\$ 64	\$ 7,785
Operating Expenses					
Fuel	—	799	—	—	799
Energy purchases	—	201	544	—	745
Other operation and maintenance	141	98	121	1,623	1,983
Depreciation	—	70	35	989	1,094
Taxes, other than income	—	5	104	203	312
Total Operating Expenses	141	1,173	804	2,815	4,933
Total	\$ 2,089	\$ 2,041	\$ 1,473	\$ (2,751)	\$ 2,852

2017					
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,050 (c)	\$ 3,156	\$ 2,195	\$ 46	\$ 7,447
Operating Expenses					
Fuel	—	759	—	—	759
Energy purchases	—	178	507	—	685
Other operation and maintenance	98	111	120	1,473	1,802
Depreciation	—	64	21	923	1,008
Taxes, other than income	—	6	102	184	292
Total Operating Expenses	98	1,118	750	2,580	4,546
Total	\$ 1,952	\$ 2,038	\$ 1,445	\$ (2,534)	\$ 2,901
2016					
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,165 (c)	\$ 3,141	\$ 2,156	\$ 55	\$ 7,517
Operating Expenses					
Fuel	—	791	—	—	791
Energy purchases	—	171	535	—	706
Other operation and maintenance	98	109	108	1,542	1,857
Depreciation	—	56	—	870	926
Taxes, other than income	—	5	99	197	301
Total Operating Expenses	98	1,132	742	2,609	4,581
Total	\$ 2,067	\$ 2,009	\$ 1,414	\$ (2,554)	\$ 2,936

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

(c) 2018, 2017 and 2016 exclude \$38 million, \$41 million and \$42 million of ancillary revenues.

2019 Outlook

(PPL)

Lower net income is projected in 2019 compared with 2018. The decrease in net income primarily reflects the 2018 favorable impact of unrealized gains on foreign currency economic hedges. Excluding 2018 special items, net income is expected to increase primarily attributable to increases in the U.K. Regulated segment and the Corporate and Other category. The following projections and factors underlying these projections (on an after-tax basis) are provided for PPL's segments and the Corporate and Other category and the related Registrants.

(PPL's U.K. Regulated Segment)

Lower net income is projected in 2019 compared with 2018. The decrease in net income reflects the 2018 favorable impact of unrealized gains on foreign currency economic hedges. Excluding 2018 special items, net income is expected to increase driven primarily by higher revenues from higher prices, higher pension income and higher assumed GBP exchange rates, partially offset by higher interest expense and higher income taxes.

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

Comparable net income is projected in 2019 compared with 2018, primarily driven by higher base electricity and gas rates and returns on additional environmental capital investments, offset by an assumed return to normal weather, higher operation and maintenance expense, higher depreciation expense and higher interest expense.

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PL's Pennsylvania Regulated Segment and PPL Electric)

Comparable net income is projected in 2019 compared with 2018, driven primarily by higher returns on transmission investments and lower operation and maintenance expense, offset by higher depreciation expense and an assumed return to normal weather.

(PPL's Corporate and Other Category)

Lower costs are projected in 2019 compared with 2018, driven primarily by lower expenses and other factors.

(All Registrants)

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

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

Statement of Income Analysis

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

	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
Operating Revenues	\$ 2,277	\$ 2,195	\$ 2,156	\$ 82	\$ 39
Operating Expenses					
Operation					
Energy purchases	544	507	535	37	(28)
Other operation and maintenance	578	572	602	6	(30)
Depreciation	352	309	253	43	56
Taxes, other than income	109	107	105	2	2
Total Operating Expenses	1,583	1,495	1,495	88	—
Other Income (Expense) - net	23	12	20	11	(8)
Interest Income from Affiliate	8	5	—	3	5
Interest Expense	159	142	129	17	13
Income Taxes	136	213	212	(77)	1
Net Income	\$ 430	\$ 362	\$ 340	\$ 68	\$ 22

Operating Revenues

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

	2018 vs. 2017	2017 vs. 2016
Distribution Price (a)	\$ 3	\$ 53
Distribution volume (b)	55	(21)
PLR (c)	39	(16)
Transmission Formula Rate (d)	62	34
TCJA Refund (e)	(79)	—
Other	2	(11)
Total	\$ 82	\$ 39

(a) Distribution rider prices resulted in an increase of \$47 million in 2017 as compared with 2016.

(b) Increase in 2018 compared with 2017 was primarily due to favorable weather in 2018. Decrease in 2017 compared with 2016 was primarily due to milder weather in 2017.

(c) Increase in 2018 compared with 2017 was primarily due to higher energy purchase volumes.

(d) Transmission Formula Rate revenues increased primarily from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability and includes the impacts of the TCJA which reduced the new revenue requirement that went into effect June 1, 2018.

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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 \$37 million in 2018 compared with 2017. This increase was primarily due to higher energy volumes. Energy purchases decreased \$28 million in 2017 compared with 2016 primarily due to lower PLR prices.

Other Operation and Maintenance

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

	2018 vs. 2017	2017 vs. 2016
Act 129	\$ 1	\$ 9
Act 129 Smart Meter program	5	3
Universal service programs	(4)	(3)
Contractor-related expenses	5	(4)
Vegetation management	(3)	(17)
Payroll-related costs	(5)	(14)
Corporate service costs	(29)	19
Storm costs	9	5
Bad debts	11	(17)
Inventory reserve	8	(2)
Other	8	(9)
Total	\$ 6	\$ (30)

Depreciation

Depreciation increased by \$43 million in 2018 compared with 2017 and \$56 million in 2017 compared with 2016. These increases were 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 well as the roll-out of the Act 129 Smart Meter program, net of retirements.

Interest Expense

Interest expense increased \$17 million in 2018 compared with 2017, primarily due to the June 2018 issuance of \$400 million of 4.15% First Mortgage Bonds due 2048 and the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047.

Interest expense increased \$13 million in 2017 compared with 2016, primarily due to the May 2017 issuance of \$475 million of 3.950% First Mortgage Bonds due 2047.

Income Taxes

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

	2018 vs. 2017	2017 vs. 2016
Change in pre-tax income at current period tax rates	\$ (4)	\$ 10
Reduction in U.S. federal income tax rate (a)	(71)	—
Depreciation and other items not normalized	(3)	—
Amortization of excess deferred income taxes (a)	(17)	—
Deferred tax impact of U.S. tax reform (b)	13	(13)
Stock-based compensation	3	4
Other	2	—
Total	\$ (77)	\$ 1

(a) 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.

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During 2017, PPL Electric recorded a deferred income tax benefit related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

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

Earnings

	2018	2017	2016
Net Income	\$ 430	\$ 362	\$ 340
Special items, gains (losses), after-tax	(5)	10	—

Excluding special items, earnings increased in 2018 compared with 2017, driven primarily by returns on additional capital investments in transmission, a higher annual PPL zonal peak load billing factor and higher distribution sales volumes primarily due to favorable weather, partially offset by higher depreciation expense and higher interest expense.

Excluding special items, earnings increased in 2017 compared with 2016, primarily due to lower operation and maintenance expense and higher transmission margins from additional capital investments, partially offset by a lower annual PPL zonal peak load billing factor, lower distribution sales volumes due to unfavorable weather, higher depreciation expense, higher interest expense and higher income taxes.

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 items that management considers special on separate lines within the table and not in their respective Statement of Income line items.

	2018 vs. 2017	2017 vs. 2016
Pennsylvania Adjusted Gross Margins	\$ 28	\$ 31
Other operation and maintenance	3	42
Depreciation	(30)	(35)
Taxes, other than income	—	1
Other Income (Expense) - net	14	(3)
Interest Expense	(17)	(13)
Income Taxes	85	(11)
Special Items, after-tax (a)	(15)	10
Net Income	\$ 68	\$ 22

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

Adjusted Gross Margins

"Pennsylvania 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.

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."

	2018			2017		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,277	\$ —	\$ 2,277	\$ 2,195	\$ —	\$ 2,195
Operating Expenses						
Energy purchases	544	—	544	507	—	507
Other operation and maintenance	121	457	578	120	452	572
Depreciation	35	317	352	21	288	309
Taxes, other than income	104	5	109	102	5	107
Total Operating Expenses	804	779	1,583	750	745	1,495
Total	\$ 1,473	\$ (779)	\$ 694	\$ 1,445	\$ (745)	\$ 700

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	2016		
	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 2,156	\$ —	\$ 2,156
Operating Expenses			
Energy purchases	535	—	535
Other operation and maintenance	108	494	602
Depreciation	—	253	253
Taxes, other than income	99	6	105
Total Operating Expenses	742	753	1,495
Total	\$ 1,414	\$ (753)	\$ 661

- (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 years ended December 31 includes the following results.

	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
Operating Revenues	\$ 3,214	\$ 3,156	\$ 3,141	\$ 58	\$ 15
Operating Expenses					
Operation					
Fuel	799	759	791	40	(32)
Energy purchases	201	178	171	23	7
Other operation and maintenance	848	801	798	47	3
Depreciation	475	439	404	36	35
Taxes, other than income	70	65	62	5	3
Total Operating Expenses	2,393	2,242	2,226	151	16
Other Income (Expense) - net	(16)	(8)	(15)	(8)	7
Interest Expense	206	197	197	9	—
Interest Expense with Affiliate	25	18	17	7	1
Income Taxes	129	375	257	(246)	118
Net Income	\$ 445	\$ 316	\$ 429	\$ 129	\$ (113)

Operating Revenues

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

	2018 vs. 2017	2017 vs. 2016
Volumes (a)	\$ 134	\$ (73)
Base rates (b)	58	58
ECR	21	10
TCJA refund (c)	(143)	—
DSM	(16)	3
Fuel and other energy prices	(4)	10
Other	8	7
Total	\$ 58	\$ 15

- (a) Increase in 2018 compared with 2017 primarily due to favorable weather in 2018. Decrease in 2017 compared with 2016 primarily due to milder weather in 2017.
(b) Increases primarily due to new base rates approved by the KPSC effective July 1, 2017.
(c) Represents 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.

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Fuel

Fuel increased \$40 million in 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Fuel decreased \$32 million in 2017 compared with 2016, primarily due to a decrease in volumes driven by weather in 2017.

Energy Purchases

Energy purchases increased \$23 million in 2018 compared with 2017, primarily due to an increase in gas volumes driven by weather in 2018.

Other Operation and Maintenance

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

	2018 vs. 2017	2017 vs. 2016
Vegetation management	\$ 8	\$ 2
Timing and scope of generation maintenance outages	8	(1)
Gas distribution maintenance and compliance	7	3
Electricity distribution outage and repairs	7	—
Storm costs	3	(1)
Plant operations and maintenance	(4)	(2)
Other	18	2
Total	\$ 47	\$ 3

Depreciation

Depreciation increased \$36 million in 2018 compared with 2017, primarily due to a \$15 million increase related to additional assets placed into service, net of retirements, and a \$15 million increase related to higher depreciation rates effective July 1, 2017.

Depreciation increased \$35 million in 2017 compared with 2016, primarily due to a \$19 million increase related additional assets placed into service, net of retirements, and a \$15 million increase related to higher depreciation rates effective July 1, 2017.

Income Taxes

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

	2018 vs. 2017	2017 vs. 2016
Deferred tax impact of U.S. tax reform (a)	\$ (112)	\$ 112
Reduction in U.S. federal income tax rate (b)	(75)	—
Change in pre-tax income	(46)	2
Amortization of excess deferred federal and state income taxes (b)	(18)	(1)
Reduction in Kentucky income tax rate (c)	(5)	—
Deferred tax impact of Kentucky state tax reform (d)	9	—
Other	1	5
Total	\$ (246)	\$ 118

- (a) During 2017, LKE recorded deferred tax expense related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA associated with LKE's non-regulated entities.
- (b) The decrease is 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.
- (c) The decrease is related to the impact of the Kentucky state corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.
- (d) During 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.

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

Earnings

	2018	2017	2016
Net Income	\$ 445	\$ 316	\$ 429
Special items, gains (losses), after-tax	(7)	(109)	—

Excluding special items, earnings increased in 2018 compared with 2017, primarily due to higher electricity and gas sales volumes driven by favorable weather in 2018, 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, higher interest expense and a lower tax shield on holding company interest and expenses.

Excluding special items, earnings decreased in 2017 compared with 2016, primarily due to lower electricity and gas sales volumes driven by milder weather in 2017 and higher depreciation expense, partially offset by higher base electricity and gas rates effective July 1, 2017.

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

	2018 vs. 2017	2017 vs. 2016
Adjusted Gross Margins	\$ 3	\$ 29
Other operation and maintenance	(60)	(1)
Depreciation	(30)	(27)
Taxes, Other than income	(6)	(2)
Other Income (Expense) - net	(3)	2
Interest Expense	(16)	(1)
Income Taxes	139	(4)
Special items, gains (losses), after-tax (a)	102	(109)
Net Income	\$ 129	\$ (113)

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 December 31.

	2018			2017		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 3,214	\$ —	\$ 3,214	\$ 3,156	\$ —	\$ 3,156
Operating Expenses						
Fuel	799	—	799	759	—	759
Energy purchases	201	—	201	178	—	178
Other operation and maintenance	98	750	848	111	690	801
Depreciation	70	405	475	64	375	439
Taxes, other than income	5	65	70	6	59	65
Total Operating Expenses	1,173	1,220	2,393	1,118	1,124	2,242
Total	\$ 2,041	\$ (1,220)	\$ 821	\$ 2,038	\$ (1,124)	\$ 914

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	2016		
	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 3,141	\$ —	\$ 3,141
Operating Expenses			
Fuel	791	—	791
Energy purchases	171	—	171
Other operation and maintenance	109	689	798
Depreciation	56	348	404
Taxes, other than income	5	57	62
Total Operating Expenses	1,132	1,094	2,226
Total	\$ 2,009	\$ (1,094)	\$ 915

- (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 years ended December 31 includes the following results.

	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
Operating Revenues					
Retail and wholesale	\$ 1,467	\$ 1,422	\$ 1,406	\$ 45	\$ 16
Electric revenue from affiliate	29	31	24	(2)	7
Total Operating Revenues	1,496	1,453	1,430	43	23
Operating Expenses					
Operation					
Fuel	308	292	301	16	(9)
Energy purchases	183	160	153	23	7
Energy purchases from affiliates	13	10	14	3	(4)
Other operation and maintenance	376	350	350	26	—
Depreciation	195	183	170	12	13
Taxes, other than income	36	33	32	3	1
Total Operating Expenses	1,111	1,028	1,020	83	8
Other Income (Expense) - net	(12)	(10)	(10)	(2)	—
Interest Expense	76	71	71	5	—
Income Taxes	64	131	126	(67)	5
Net Income	\$ 233	\$ 213	\$ 203	\$ 20	\$ 10

Operating Revenues

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

	2018 vs. 2017	2017 vs. 2016
Volumes (a)	\$ 66	\$ (20)
Base rates (b)	32	32
ECR	10	5
TCJA refund (c)	(67)	—
DSM	(6)	2
Fuel and other energy prices	(2)	—
Other	10	4
Total	\$ 43	\$ 23

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- (b) Increase in 2018 compared with 2017 primarily due to favorable weather in 2018. Decrease in 2017 compared with 2016 primarily due to milder weather in 2017. Increases primarily due to new base rates approved by the KPSC effective July 1, 2017.
- (c) Represents 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 6 to the Financial Statements for additional information.

Fuel

Fuel increased \$16 million in 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Fuel decreased \$9 million in 2017 compared with 2016, primarily due to a decrease in commodity costs.

Energy Purchases

Energy purchases increased \$23 million in 2018 compared with 2017, primarily due to an increase in gas volumes driven by weather in 2018.

Other Operation and Maintenance

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

	2018 vs. 2017	2017 vs. 2016
Gas distribution maintenance and compliance	\$ 7	\$ 3
Electricity distribution outage and repairs	5	—
Storm costs	3	(1)
Timing and scope of generation maintenance outages	2	—
Vegetation management	2	—
Plant operations and maintenance	(1)	(1)
Other	8	(1)
Total	\$ 26	\$ —

Depreciation

Depreciation increased \$12 million in 2018 compared with 2017, primarily due to a \$7 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.

Depreciation increased \$13 million in 2017 compared with 2016, primarily due to a \$9 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 was due to:

	2018 vs. 2017	2017 vs. 2016
Reduction in U.S. federal income tax rate (a)	\$ (39)	\$ —
Change in pre-tax income	(18)	5
Amortization of excess deferred federal and state income taxes (a)	(7)	(1)
Reduction in Kentucky income tax rate (b)	(2)	—
Other	(1)	1
Total	\$ (67)	\$ 5

(a) The decrease is 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 decrease is related to the impact of the Kentucky state corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

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

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Earnings

	2018	2017	2016
Net Income	\$ 233	\$ 213	\$ 203
Special items, gains (losses), after-tax (a)	—	—	—

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

Earnings in 2018 compared with 2017 increased primarily due to higher electricity and gas sales volumes driven by favorable weather in 2018, 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.

Earnings in 2017 compared with 2016 increased primarily due to higher base electricity and gas rates effective July 1, 2017, partially offset by lower electricity and gas sales volumes driven by milder weather in 2017 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.

	2018 vs. 2017	2017 vs. 2016
Adjusted Gross Margins	\$ 12	\$ 23
Other operation and maintenance	(34)	2
Depreciation	(13)	(10)
Taxes, other than income	(5)	—
Other Income (Expense) - net	(2)	—
Interest Expense	(5)	—
Income Taxes	67	(5)
Net Income	\$ 20	\$ 10

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 underlying drivers of the 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 December 31.

	2018			2017		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,496	\$ —	\$ 1,496	\$ 1,453	\$ —	\$ 1,453
Operating Expenses						
Fuel	308	—	308	292	—	292
Energy purchases	196	—	196	170	—	170
Other operation and maintenance	37	339	376	45	305	350
Depreciation	31	164	195	32	151	183
Taxes, other than income	2	34	36	4	29	33
Total Operating Expenses	574	537	1,111	543	485	1,028
Total	\$ 922	\$ (537)	\$ 385	\$ 910	\$ (485)	\$ 425

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	2016		
	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,430	\$ —	\$ 1,430
Operating Expenses			
Fuel	301	—	301
Energy purchases	167	—	167
Other operation and maintenance	43	307	350
Depreciation	29	141	170
Taxes, other than income	3	29	32
Total Operating Expenses	543	477	1,020
Total	\$ 887	\$ (477)	\$ 410

- (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 years ended December 31 includes the following results.

	2018	2017	2016	Change	
				2018 vs. 2017	2017 vs. 2016
Operating Revenues					
Retail and wholesale	\$ 1,747	\$ 1,734	\$ 1,735	\$ 13	\$ (1)
Electric revenue from affiliate	13	10	14	3	(4)
Total Operating Revenues	1,760	1,744	1,749	16	(5)
Operating Expenses					
Operation					
Fuel	491	467	490	24	(23)
Energy purchases	18	18	18	—	—
Energy purchases from affiliates	29	31	24	(2)	7
Other operation and maintenance	441	423	422	18	1
Depreciation	279	255	234	24	21
Taxes, other than income	34	32	30	2	2
Total Operating Expenses	1,292	1,226	1,218	66	8
Other Income (Expense) - net	(6)	(4)	(7)	(2)	3
Interest Expense	100	96	96	4	—
Income Taxes	76	159	163	(83)	(4)
Net Income	\$ 286	\$ 259	\$ 265	\$ 27	\$ (6)

Operating Revenue

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

	2018 vs. 2017	2017 vs. 2016
Volumes (a)	\$ 69	\$ (48)
Base rates (b)	26	26
ECR	11	5
TCJA refund (c)	(76)	—
DSM	(10)	2
Fuel and other energy prices	(3)	8
Other	(1)	2
Total	\$ 16	\$ (5)

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- (a) Increase in 2018 compared with 2017 primarily due to favorable weather in 2018. Decrease in 2017 compared with 2016 primarily due to milder weather in 2017.
- (b) Increases primarily due to new base rates approved by the KPSC effective July 1, 2017.
- (c) Represents 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 6 to the Financial Statements for additional information.

Fuel

Fuel increased \$24 million in 2018 compared with 2017, primarily due to an increase in volumes driven by weather in 2018.

Fuel decreased \$23 million in 2017 compared with 2016, primarily due to a decrease in volumes driven by milder weather in 2017.

Other Operation and Maintenance

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

	2018 vs. 2017	2017 vs. 2016
Timing and scope of generation maintenance outages	\$ 6	\$ (1)
Vegetation management	6	2
Electricity distribution outage and repairs	2	—
Plant operation and maintenance	(3)	(1)
Other	7	1
Total	<u>\$ 18</u>	<u>\$ 1</u>

Depreciation

Depreciation increased \$24 million in 2018 compared with 2017, primarily due to an \$11 million increase related to higher depreciation rates effective July 1, 2017, and an \$8 million increase related to additional assets placed into service, net of retirements.

Depreciation increased \$21 million in 2017 compared with 2016, primarily due to an \$11 million increase related to higher depreciation rates effective July 1, 2017, and a \$9 million increase related to additional assets placed into service, net of retirements.

Income Taxes

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

	2018 vs. 2017	2017 vs. 2016
Reduction in U.S. federal income tax rate (a)	\$ (47)	\$ —
Change in pre-tax income	(22)	(4)
Amortization of excess deferred federal and state income taxes (a)	(11)	—
Reduction in Kentucky income tax rate (b)	(3)	—
Total	<u>\$ (83)</u>	<u>\$ (4)</u>

- (a) The decrease is 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 decrease is related to the impact of the Kentucky state corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.

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

Earnings

	2018	2017	2016
Net Income	\$ 286	\$ 259	\$ 265
Special items, gains (losses), after tax	—	(1)	—

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Including special items, earnings increased in 2018 compared with 2017, primarily due to higher electricity sales volumes driven by favorable weather in 2018, higher base electricity 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.

Excluding special items, earnings decreased in 2017 compared with 2016, primarily due to lower electricity sales volumes driven by milder weather in 2017 and higher depreciation expense, partially offset by higher base electricity rates effective July 1, 2017.

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

	2018 vs. 2017	2017 vs. 2016
Adjusted Gross Margins	\$ (9)	\$ 6
Other operation and maintenance	(23)	(1)
Depreciation	(17)	(16)
Taxes, Other than income	(1)	(2)
Other Income (Expense) - net	(3)	4
Interest Expense	(4)	—
Income Taxes	83	4
Special items, gains (losses), after-tax (a)	1	(1)
Net Income	<u>\$ 27</u>	<u>\$ (6)</u>

(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."

	2018			2017		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,760	\$ —	\$ 1,760	\$ 1,744	\$ —	\$ 1,744
Operating Expenses						
Fuel	491	—	491	467	—	467
Energy purchases	47	—	47	49	—	49
Other operation and maintenance	61	380	441	66	357	423
Depreciation	39	240	279	32	223	255
Taxes, other than income	3	31	34	2	30	32
Total Operating Expenses	641	651	1,292	616	610	1,226
Total	<u>\$ 1,119</u>	<u>\$ (651)</u>	<u>\$ 468</u>	<u>\$ 1,128</u>	<u>\$ (610)</u>	<u>\$ 518</u>

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	2016		
	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 1,749	\$ —	\$ 1,749
Operating Expenses			
Fuel	490	—	490
Energy purchases	42	—	42
Other operation and maintenance	66	356	422
Depreciation	27	207	234
Taxes, other than income	2	28	30
Total Operating Expenses	627	591	1,218
Total	\$ 1,122	\$ (591)	\$ 531

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

Financial Condition

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

Liquidity and Capital Resources

(All Registrants)

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

The Registrants had the following at:

	PPL (a)	PPL Electric	LKE	LG&E	KU
December 31, 2018					
Cash and cash equivalents	\$ 621	\$ 267	\$ 24	\$ 10	\$ 14
Short-term debt	1,430	—	514	279	235
Long-term debt due within one year	530	—	530	434	96
Notes payable with affiliates	—	—	113	—	—
December 31, 2017					
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	—	—
December 31, 2016					
Cash and cash equivalents	\$ 341	\$ 13	\$ 13	\$ 5	\$ 7
Short-term debt	923	295	185	169	16
Long-term debt due within one year	518	224	194	194	—
Notes payables with affiliates	—	—	163	—	—

(a) At December 31, 2018, \$3 million of cash and cash equivalents were denominated in GBP. If these amounts would be remitted as dividends, PPL would not anticipate an incremental U.S. tax cost. See Note 6 to the Financial Statements for additional information on undistributed earnings of WPD.

(All Registrants)

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

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	PPL	PPL Electric	LKE	LG&E	KU
2018					
Operating activities	\$ 2,821	\$ 978	\$ 915	\$ 443	\$ 581
Investing activities	(3,361)	(1,193)	(1,116)	(554)	(561)
Financing activities	690	433	195	106	(21)
2017					
Operating activities	\$ 2,461	\$ 880	\$ 1,099	\$ 512	\$ 634
Investing activities	(3,161)	(1,252)	(888)	(458)	(428)
Financing activities	824	408	(194)	(44)	(198)
2016					
Operating activities	\$ 2,890	\$ 872	\$ 1,027	\$ 482	\$ 606
Investing activities	(2,926)	(1,130)	(790)	(439)	(349)
Financing activities	(439)	224	(254)	(57)	(261)
2018 vs. 2017 Change					
Operating activities	\$ 360	\$ 98	\$ (184)	\$ (69)	\$ (53)
Investing activities	(200)	59	(228)	(96)	(133)
Financing activities	(134)	25	389	150	177
2017 vs. 2016 Change					
Operating activities	\$ (429)	\$ 8	\$ 72	\$ 30	\$ 28
Investing activities	(235)	(122)	(98)	(19)	(79)
Financing activities	1,263	184	60	13	63

Operating Activities

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

	PPL	PPL Electric	LKE	LG&E	KU
2018 vs. 2017					
Change - Cash Provided (Used):					
Net income	\$ 699	\$ 68	\$ 129	\$ 20	\$ 27
Non-cash components	(752)	(106)	(182)	(59)	(94)
Working capital	199	134	34	51	89
Defined benefit plan funding	204	(4)	(96)	(57)	(31)
Other operating activities	10	6	(69)	(24)	(44)
Total	\$ 360	\$ 98	\$ (184)	\$ (69)	\$ (53)
2017 vs. 2016					
Change - Cash Provided (Used):					
Net income	\$ (774)	\$ 22	\$ (113)	\$ 10	\$ (6)
Non-cash components	363	100	31	(8)	42
Working capital	38	(87)	93	(33)	(14)
Defined benefit plan funding	(138)	(24)	50	42	(3)
Other operating activities	82	(3)	11	19	9
Total	\$ (429)	\$ 8	\$ 72	\$ 30	\$ 28

(PPL)

PPL had a \$360 million increase in cash provided by operating activities in 2018 compared with 2017.

- Net income increased \$699 million between periods and included a decrease in net non-cash charges of \$752 million. The decrease in net non-cash charges was primarily due to an increase in unrealized gains on hedging activities, a decrease in deferred income taxes (primarily due to the unfavorable adjustments recorded in 2017 for the tax changes

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related to the enactment of TCJA) and an increase in the U.K. net periodic defined benefit credits (primarily due to an increase in expected returns on higher asset balances).

- The \$199 million increase in cash from changes in working capital was primarily due to a decrease in unbilled revenue (primarily due to lower volumes due to milder temperatures in December 2018 versus December 2017), an increase in accounts payable (primarily due to timing of payments), a decrease in accounts receivable (primarily due to timing of receipts) and a decrease in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), partially offset by a decrease in customer deposits and an increase in fuel, materials and supplies (primarily due to higher generation driven by weather in 2018 compared with 2017).
- Defined benefit plan funding was \$204 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 had a \$429 million decrease in cash provided by operating activities in 2017 compared with 2016.

- Net income declined \$774 million between periods and included net non-cash benefits of \$363 million. The increase in net non-cash benefits was primarily due to an increase in unrealized losses on hedging activities, an increase in deferred income taxes (primarily due to the impact of the TCJA) and an increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, and higher depreciation rates at LG&E and KU effective July 1, 2017, partially offset by the impact of foreign currency at WPD), partially offset by an increase in the U.K. net periodic defined benefit credits (primarily due to a decrease in the U.K. pension plan discount rates used to calculate the interest cost component of the net periodic defined benefit costs (credits) and increase in expected returns).
- The \$38 million increase in cash from changes in working capital was primarily due a decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), a decrease in fuel, materials and supplies (primarily due to a decrease in fuel purchases due to lower generation driven by milder weather in 2017 compared to 2016) and a decrease in unbilled revenue (primarily due to lower growth in volumes in 2017 compared to 2016), partially offset by a decrease in accounts payable (due to timing of payments), a decrease in taxes payable (primarily due to the timing of payments) and an increase in accounts receivable.
- Defined benefit plan funding was \$138 million higher in 2017. The increase was primarily due to the acceleration of WPD's contributions to its U.K. pension plans.

(PPL Electric)

PPL Electric had a \$98 million increase in cash provided by operating activities in 2018 compared with 2017.

- Net income improved by \$68 million between the periods. This included a decrease of \$106 million of net non-cash charges primarily due to a \$133 million decrease in deferred income tax expense (primarily due to book versus tax plant timing differences) partially offset by a \$43 million increase in depreciation expense (primarily due to additional assets placed into service, net of retirements, related to the ongoing efforts to ensure the reliability of the delivery system, the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter Program).
- The \$134 million increase in cash from changes in working capital was primarily due to a decrease in accounts receivable (primarily due to the timing of receipts including the 2017 federal income tax benefit refund received in 2018) and a decrease in unbilled revenues (primarily due to colder weather in December 2017).

PPL Electric had an \$8 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income improved by \$22 million between the periods. This included an additional \$100 million of net non-cash benefits primarily due to a \$56 million increase in depreciation expense (primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements) and a \$37 million increase in deferred income taxes (primarily due to book versus tax plant timing differences).
- The \$87 million decrease in cash from changes in working capital was primarily due to an increase in accounts receivable (primarily due to a 2017 federal income tax benefit refund, not yet received), a decrease in accounts payable (primarily due to timing of payments) and an increase in prepayments (primarily due to an increase in the 2017 gross receipts tax prepayment compared to 2016), partially offset by an decrease in net regulatory assets and liabilities (due to timing of rate recovery mechanisms) and a decrease in unbilled revenue (primarily due to lower growth in volumes in 2017 compared to 2016).

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- Pension funding was \$24 million higher in 2017 due to contributions made in 2017 to the PPL Retirement Plan.

(LKE)

LKE had a \$184 million decrease in cash provided by operating activities in 2018 compared with 2017.

- Net income increased \$129 million between the periods and included a decrease in net non-cash charges of \$182 million. The decrease in net 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 unbilled revenues (primarily due to milder weather in December 2018 compared to 2017), an increase in accounts payable (primarily due to timing of payments) and a decrease in net regulatory assets and liabilities (primarily due to the impact of the TJCA and the timing of rate recovery mechanisms), partially offset by a decrease in other current liabilities and accrued taxes (primarily due to timing of payments) and an increase in fuel purchases (primarily due to higher generation driven by weather in 2018 compared with 2017).
- Defined benefit plan funding was \$96 million higher in 2018.
- The decrease in cash from LKE's other operating activities was driven primarily by an increase in ARO expenditures and an increase in other assets (primarily due to non-current regulatory asset increases as a result of significant storm activity).

LKE had a \$72 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income decreased \$113 million between the periods and included an increase in net non-cash charges of \$31 million. The increase in net non-cash charges was primarily driven by increases in depreciation expense and deferred income taxes (primarily due to the impact of the TCJA).
- The increase in cash from changes in working capital was driven primarily by an increase in other current liabilities (due to customer advances and the timing of payments), a decrease in fuel purchases (primarily due to lower generation driven by milder weather in 2017 compared to 2016), an increase in taxes payable (primarily due to the timing of payments), partially offset by a decrease in accounts payable (primarily due to the timing of payments).
- Defined benefit plan funding was \$50 million lower in 2017.

(LG&E)

LG&E had a \$69 million decrease in cash provided by operating activities in 2018 compared with 2017.

- Net income increased \$20 million between the periods and included a decrease in net non-cash charges of \$59 million. The decrease in net 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 unbilled revenues (primarily due to milder weather in December 2018 compared to 2017), an increase in accounts payable and accrued taxes (primarily due to timing of payments) and a decrease in net regulatory assets and liabilities (primarily due to the impact of the TJCA and the timing of rate recovery mechanisms), partially offset by a decrease in other current liabilities (primarily due to timing of payments).
- Defined benefit plan funding was \$57 million higher in 2018.
- The decrease in cash from LG&E's other operating activities was driven primarily by an increase in other assets (primarily due to non-current regulatory asset increases as a result of significant storm activity).

LG&E had a \$30 million increase in cash provided by operating activities in 2017 compared with 2016.

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- Net income increased \$10 million between the periods and included a decrease in net non-cash charges of \$8 million. The decrease in net non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences), partially offset by an increase in depreciation expense.
- The decrease in cash from changes in working capital was driven primarily by decreases in accounts payable and taxes payable (primarily due to the timing of payments), partially offset by a decrease in accounts receivable from affiliates (due to lower intercompany settlements associated with energy sales and inventory) and an increase in other current liabilities (primarily due to customer advances and the timing of payments).
- Defined benefit plan funding was \$42 million lower in 2017.
- The increase in cash from LG&E's other operating activities was driven primarily by lower payments for the settlement of interest rate swaps.

(KU)

KU had a \$53 million decrease in cash provided by operating activities in 2018 compared with 2017.

- Net income increased \$27 million between the periods and included a decrease in net non-cash charges of \$94 million. The decrease in net non-cash charges was primarily driven by a decrease in deferred income tax expense (primarily due to book versus tax plant timing differences, differences in the utilization of net operating losses 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 unbilled revenues (primarily due to milder weather in December 2018 compared to 2017), an increase in accrued taxes and accounts payable (primarily due to timing of payments), and a decrease in net regulatory assets and liabilities (primarily due to the impact of the TJCA and the timing of rate recovery mechanisms), partially offset by an increase in fuel purchases (primarily due to higher generation driven by weather in 2018 compared to 2017) and a decrease in other current liabilities (primarily due to timing of payments).
- Defined benefit plan funding was \$31 million higher in 2018.
- The decrease in cash from KU's other operating activities was driven primarily by an increase in ARO expenditures and an increase in other assets (primarily due to noncurrent regulatory asset increases as a result of significant storm activity).

KU had a \$28 million increase in cash provided by operating activities in 2017 compared with 2016.

- Net income decreased \$6 million between the periods and included an increase in net non-cash charges of \$42 million. The increase in net non-cash charges was primarily driven by an increase in deferred income tax expense (primarily due to the utilization of net operating losses) and an increase in depreciation expense.
- The decrease in cash from changes in working capital was driven primarily by a decrease in taxes payable (primarily due to the timing of payments) and a decrease in accounts payable to affiliates (due to lower intercompany settlements associated with energy purchases and inventory), partially offset by a decrease in fuel purchases (primarily due to lower generation driven by milder weather in 2017 compared to 2016) and an increase in accounts payable (primarily due to the timing of payments).

Investing Activities

(All Registrants)

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

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	PPL	PPL Electric	LKE	LG&E	KU
2018 vs. 2017					
Change - Cash Provided (Used):					
Expenditures for PP&E	\$ (105)	\$ 52	\$ (225)	\$ (96)	\$ (130)
Purchase of available-for-sale securities	(65)	—	—	—	—
Other investing activities	(30)	7	(3)	—	(3)
Total	\$ (200)	\$ 59	\$ (228)	\$ (96)	\$ (133)

	PPL	PPL Electric	LKE	LG&E	KU
2017 vs. 2016					
Change - Cash Provided (Used):					
Expenditures for PP&E	\$ (213)	\$ (119)	\$ (101)	\$ (19)	\$ (82)
Other investing activities	(22)	(3)	3	—	3
Total	\$ (235)	\$ (122)	\$ (98)	\$ (19)	\$ (79)

For PPL, in 2018 compared with 2017, higher project expenditures at LKE, LG&E and KU were 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 ongoing efforts to improve reliability and replace aging infrastructure.

For PPL, in 2017 compared with 2016, higher project expenditures at PPL Electric, LKE, LG&E and KU were partially offset by lower project expenditures at WPD. The increase in project expenditures for PPL Electric was primarily due to an increase in capital spending related to the ongoing efforts to improve reliability and replace aging infrastructure, as well as the roll-out of the Act 129 Smart Meter program. The 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 plant, CCR projects at the Trimble County plant and increased spending on various transmission projects at KU, partially offset by lower spending driven by completion of environmental air projects. The decrease in expenditures at WPD was primarily due to a decrease in foreign currency exchange rates partially offset by an increase in expenditures to enhance stem reliability.

See "Forecasted Uses of Cash" for detail regarding projected capital expenditures for the years 2019 through 2023.

Financing Activities

(All Registrants)

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

	PPL	PPL Electric	LKE	LG&E	KU
2018 vs. 2017					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	\$ (565)	\$ (72)	\$ 1	\$ 10	\$ (9)
Debt issuance/retirement, affiliate	—	—	250	—	—
Stock issuances/redemptions, net	245	—	—	—	—
Dividends	(61)	(54)	—	36	(20)
Capital contributions/distributions, net	—	(146)	100	53	45
Changes in net short-term debt	248	295	211	50	161
Note payable with affiliate	—	—	(174)	—	—
Other financing activities	(1)	2	1	1	—
Total	\$ (134)	\$ 25	\$ 389	\$ 150	\$ 177

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	PPL	PPL Electric	LKE	LG&E	KU
2017 vs. 2016					
Change - Cash Provided (Used):					
Debt issuance/retirement, net	\$ 935	\$ 470	\$ 115	\$ 115	\$ —
Stock issuances/redemptions, net	309	—	—	—	—
Dividends	(42)	(48)	—	(64)	22
Capital contributions/distributions, net	—	355	(147)	(41)	(20)
Changes in net short-term debt	86	(590)	139	3	61
Note payable with affiliate	—	—	(47)	—	—
Other financing activities	(25)	(3)	—	—	—
Total	\$ 1,263	\$ 184	\$ 60	\$ 13	\$ 63

(PPL)

For PPL, in 2018 compared with 2017, \$134 million less cash from financing activities was required primarily due to improvements in cash from operations of \$360 million.

For PPL, in 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general corporate expenditures and a decrease in cash from operations of \$429 million.

(PPL Electric)

For PPL Electric, in 2018 compared with 2017 and 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general expenditures.

(LKE, LG&E and KU)

For LKE, LG&E and KU, in 2018 compared with 2017 and 2017 compared with 2016, cash provided by financing activities increased primarily as a result of an increase in cash required to fund capital and general corporate expenditures.

(All Registrants)

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

Long-term Debt and Equity Securities

Long-term debt and equity securities activity for 2018 included:

Cash Flow Impact:	Debt		Net Stock
	Issuances (a)	Retirements	Issuances
PPL	\$ 1,059	\$ 277	\$ 698
PPL Electric	398	—	—
LKE	368	27	—
LG&E	100	—	—
KU	18	27	—

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

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

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PL)

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

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. PPL issued 4.2 million shares of common stock and received gross proceeds of \$119 million for the year ended December 31, 2018.

Forecasted Sources of Cash

(All Registrants)

The Registrants expect to continue to have adequate liquidity available from operating cash flows, cash and cash equivalents, credit facilities and commercial paper issuances. Additionally, subject to market conditions, the Registrants and their subsidiaries may access the capital markets, and PPL Electric, LG&E and KU anticipate receiving equity contributions from their parent or member in 2019.

Credit Facilities

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At December 31, 2018, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

External

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,050	\$ —	\$ 684	\$ 366
PPL Electric Credit Facility	650	—	1	649
LG&E Credit Facilities	700	200	279	221
KU Credit Facilities	598	—	433	165
Total LKE Consolidated	1,298	200	712	386
Total U.S. Credit Facilities (a) (b)	\$ 2,998	\$ 200	\$ 1,397	\$ 1,401
Total U.K. Credit Facilities (b) (c)	£ 1,055	£ 195	£ —	£ 861

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

The commitments under the domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 11%, PPL Electric 7%, LKE - 19%, LG&E - 33% and KU - 37%.

- (b) Each company pays customary fees under its respective syndicated credit facility, as does LG&E under its term loan agreement and KU under its letter of credit facility. Borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (c) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.

The amounts borrowed at December 31, 2018, include a USD-denominated borrowing of \$200 million and GBP-denominated borrowings of £38 million, which equated to \$48 million. The unused capacity reflects the USD-denominated amount borrowed in GBP of £156 million as of the date borrowed. At December 31, 2018, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$1.1 billion.

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

In addition to the financial covenants noted in the table above, the credit agreements governing the above credit facilities contain various other covenants. Failure to comply with the covenants after applicable grace periods could result in acceleration of repayment of borrowings and/or termination of the agreements. The Registrants monitor compliance with the covenants on a regular basis. At December 31, 2018, the Registrants were in compliance with these covenants. At this time, the Registrants believe that these covenants and other borrowing conditions will not limit access to these funding sources.

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

Intercompany (LKE, LG&E and KU)

	Committed Capacity	Borrowed	Non-affiliate Used Capacity	Unused Capacity
LKE Credit Facility	\$ 375	\$ 113	\$ —	\$ 262
LG&E Money Pool (a)	500	—	279	221
KU Money Pool (a)	500	—	235	265

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

See Note 14 to the Financial Statements for further discussion of intercompany credit facilities.

Commercial Paper (All Registrants)

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

	December 31, 2018		
	Capacity	Commercial Paper Issuances	Unused Capacity
PPL Capital Funding	\$ 1,000	\$ 669	\$ 331
PPL Electric	650	—	650
LG&E	350	279	71
KU	350	235	115
Total LKE	700	514	186
Total PPL	\$ 2,350	\$ 1,183	\$ 1,167

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Long-term Debt and Equity Securities

(PPL)

PPL and its subsidiaries are authorized to incur, subject to market conditions, up to \$4 billion of long-term indebtedness in 2019, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

In 2018, PPL was authorized to issue, subject to market conditions, up to \$3.5 billion of equity over three years.

(PPL Electric)

PPL Electric is authorized to incur, subject to market conditions, up to \$650 million of long-term indebtedness in 2019, the proceeds of which would be used to fund capital expenditures and for general corporate purposes.

(LKE, LG&E and KU)

LG&E is authorized to incur, subject to market conditions and regulatory approvals, up to \$700 million of long-term indebtedness in 2019. The proceeds would be used to pay down LG&E's short-term debt balance, fund capital expenditures and for general corporate purposes. LG&E currently plans to remarket, subject to market conditions, \$234 million of its Pollution Control Bonds with put dates in 2019.

KU is authorized to incur, subject to market conditions and regulatory approvals, up to \$500 million of long-term indebtedness in 2019, the proceeds of which would be used to pay down KU's short-term debt balances, fund capital expenditures and for general corporate purposes. KU currently plans to remarket, subject to market conditions, \$96 million of its Pollution Control Bonds with put dates in 2019.

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

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

Forecasted Uses of Cash

(All Registrants)

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

Capital Expenditures

The table below shows the Registrants' current capital expenditure projections for the years 2019 through 2023. Expenditures for the domestic regulated utilities are expected to be recovered through rates, pending regulatory approval.

	Total	Projected				
		2019 (b)	2020	2021	2022	2023
PPL						
Construction expenditures (a)						
Generating facilities	\$ 855	\$ 268	\$ 157	\$ 193	\$ 107	\$ 130
Distribution facilities	9,327	1,899	1,843	1,880	1,832	1,873
Transmission facilities	3,238	867	892	630	482	367
Environmental	682	198	112	109	148	115
Other	449	101	109	104	72	63
Total Capital Expenditures	\$ 14,551	\$ 3,333	\$ 3,113	\$ 2,916	\$ 2,641	\$ 2,548

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	Total	Projected				
		2019 (b)	2020	2021	2022	2023
PPL Electric (a)						
Distribution facilities	\$ 1,946	\$ 430	\$ 408	\$ 402	\$ 403	\$ 303
Transmission facilities	2,415	698	702	406	362	247
Total Capital Expenditures	\$ 4,361	\$ 1,128	\$ 1,110	\$ 808	\$ 765	\$ 550
LKE						
Generating facilities	\$ 855	\$ 268	\$ 157	\$ 193	\$ 107	\$ 130
Distribution facilities	1,816	432	370	395	305	314
Transmission facilities	823	169	190	224	120	120
Environmental	682	198	112	109	148	115
Other	425	97	101	97	70	60
Total Capital Expenditures	\$ 4,601	\$ 1,164	\$ 930	\$ 1,018	\$ 750	\$ 739
LG&E						
Generating facilities	\$ 381	\$ 107	\$ 62	\$ 93	\$ 58	\$ 61
Distribution facilities	1,165	287	239	262	187	190
Transmission facilities	173	37	34	42	27	33
Environmental	261	71	39	54	67	30
Other	201	47	49	46	32	27
Total Capital Expenditures	\$ 2,181	\$ 549	\$ 423	\$ 497	\$ 371	\$ 341
U						
Generating facilities	\$ 474	\$ 161	\$ 95	\$ 100	\$ 49	\$ 69
Distribution facilities	651	145	131	133	118	124
Transmission facilities	650	132	156	182	93	87
Environmental	421	127	73	55	81	85
Other	200	45	48	47	33	27
Total Capital Expenditures	\$ 2,396	\$ 610	\$ 503	\$ 517	\$ 374	\$ 392

- (a) Construction expenditures include capitalized interest and AFUDC, which are expected to total approximately \$81 million for PPL and \$50 million for PPL Electric.
(b) The 2019 total excludes amounts included in accounts payable as of December 31, 2018.

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

In addition to cash on hand and cash from operations, the Registrants plan to fund capital expenditures in 2019 with proceeds from the sources noted below.

Source	PPL	PPL Electric	LKE	LG&E	KU
Issuance of common stock	X				
Issuance of long-term debt securities	X	X	X	X	X
Equity contributions from parent/member		X	X	X	X
Short-term debt	X	X	X	X	X

X = Expected funding source.

Contractual Obligations

The Registrants have assumed various financial obligations and commitments in the ordinary course of conducting business. At December 31, 2018, estimated contractual cash obligations were as follows:

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	Total	2019	2020 - 2021	2022 - 2023	After 2023
PPL					
Long-term Debt (a)	\$ 20,694	\$ 530	\$ 2,514	\$ 3,507	\$ 14,143
Interest on Long-term Debt (b)	14,941	886	1,680	1,474	10,901
Operating Leases (c)	116	26	36	21	33
Purchase Obligations (d)	3,134	1,165	1,061	406	502
Pension Benefit Plan Funding Obligations (e)	784	265	353	166	—
Total Contractual Cash Obligations	\$ 39,669	\$ 2,872	\$ 5,644	\$ 5,574	\$ 25,579
PPL Electric					
Long-term Debt (a)	\$ 3,739	\$ —	\$ 500	\$ 564	\$ 2,675
Interest on Long-term Debt (b)	3,243	158	310	271	2,504
Unconditional Power Purchase Obligations	53	22	31	—	—
Total Contractual Cash Obligations	\$ 7,035	\$ 180	\$ 841	\$ 835	\$ 5,179
LKE					
Long-term Debt (a)	\$ 5,541	\$ 530	\$ 1,323	\$ 13	\$ 3,675
Interest on Long-term Debt (b)	3,023	212	369	307	2,135
Operating Leases (c)	70	20	26	13	11
Coal and Natural Gas Purchase Obligations (f)	1,733	614	811	283	25
Unconditional Power Purchase Obligations (g)	564	27	53	54	430
Construction Obligations (h)	385	291	81	13	—
Pension Benefit Plan Obligations (e)	20	20	—	—	—
Other Obligations	328	140	85	56	47
Total Contractual Cash Obligations	\$ 11,664	\$ 1,854	\$ 2,748	\$ 739	\$ 6,323
LG&E					
Long-term Debt (a)	\$ 1,824	\$ 434	\$ 98	\$ —	\$ 1,292
Interest on Long-term Debt (b)	1,136	66	114	108	848
Operating Leases (c)	30	10	10	6	4
Coal and Natural Gas Purchase Obligations (f)	942	303	442	177	20
Unconditional Power Purchase Obligations (g)	391	19	37	38	297
Construction Obligations (h)	143	123	17	3	—
Other Obligations	112	42	29	25	16
Total Contractual Cash Obligations	\$ 4,578	\$ 997	\$ 747	\$ 357	\$ 2,477
KU					
Long-term Debt (a)	\$ 2,342	\$ 96	\$ 500	\$ 13	\$ 1,733
Interest on Long-term Debt (b)	1,618	93	167	151	1,207
Operating Leases (c)	39	10	16	7	6
Coal and Natural Gas Purchase Obligations (f)	791	311	369	106	5
Unconditional Power Purchase Obligations (g)	173	8	16	16	133
Construction Obligations (h)	197	137	53	7	—
Other Obligations	135	43	38	23	31
Total Contractual Cash Obligations	\$ 5,295	\$ 698	\$ 1,159	\$ 323	\$ 3,115

(a) Reflects principal maturities based on stated maturity or earlier put dates. See Note 8 to the Financial Statements for a discussion of variable-rate remarketable bonds issued on behalf of LG&E and KU. The Registrants do not have any significant capital lease obligations.

(b) Assumes interest payments through stated maturity or earlier put dates. For PPL, LKE, LG&E and KU the payments herein are subject to change, as payments for debt that is or becomes variable-rate debt have been estimated and for PPL, payments denominated in British pounds sterling have been translated to U.S. dollars at a current foreign currency exchange rate.

See Note 9 to the Financial Statements for additional information.

(c) The amounts include agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Primarily includes, as applicable, the purchase obligations of electricity, coal, natural gas and limestone, as well as certain construction expenditures, which are also included in the Capital Expenditures table presented above.

(e) The amounts for PPL include WPD's contractual deficit pension funding requirements arising from actuarial valuations performed in March 2016. The U.K. electricity regulator currently allows a recovery of a substantial portion of the contributions relating to the plan deficit. The amounts also include contributions made or committed to be made in 2019 for PPL's and LKE's U.S. pension plans (for PPL Electric, LG&E and KU includes their share of these amounts). Based on the current funded status of these plans, except for WPD's plans, no cash contributions are required. See Note 11 to the Financial Statements for a discussion of expected contributions.

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- Represents contracts to purchase coal, natural gas and natural gas transportation. See Note 13 to the Financial Statements for additional information.
- Represents future minimum payments under OVEC power purchase agreements through June 2040. See Note 13 to the Financial Statements for additional information.
- (h) Represents construction commitments, including commitments for LG&E's and KU's Trimble County landfill construction, CCR Rule Closure and Process Water Program along with Cane Run plant demolition, which are also reflected in the Capital Expenditures table presented above.

Dividends/Distributions

(PPL)

PPL views dividends as an integral component of shareowner return and expects to continue to pay dividends in amounts that are within the context of maintaining a capitalization structure that supports investment grade credit ratings. In November 2018, PPL declared its quarterly common stock dividend, payable January 2, 2019, at 41.0 cents per share (equivalent to \$1.64 per annum). On February 14, 2019, PPL announced that the company is increasing its common stock dividend to 41.25 cents per share on a quarterly basis (equivalent to \$1.65 per annum). Future dividends will be declared at the discretion of the Board of Directors and will depend upon future earnings, cash flows, financial and legal requirements and other relevant factors.

Subject to certain exceptions, PPL may not declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2018, no interest payments were deferred.

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

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

(All Registrants)

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

Purchase or Redemption of Debt Securities

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

Rating Agency Actions

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

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

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

The following table sets forth the Registrants' and their subsidiaries' credit ratings for outstanding debt securities or commercial paper programs as of December 31, 2018.

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

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

(PPL)

In 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)

As discussed in Note 8 to the Financial Statements, certain of WPD's senior unsecured notes may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event. A restructuring event includes the loss of, or a material adverse change to, the distribution licenses under which WPD (East

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Midlands), WPD (South West), WPD (South Wales) and WPD (West Midlands) operate and would be a trigger event for each company. These notes totaled \$1 billion (approximately \$6.5 billion) nominal value at December 31, 2018.

(PPL, LKE, LG&E and KU)

Various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, interest rate and foreign currency instruments (for PPL), contain provisions that require the posting of additional collateral, or permit the counterparty to terminate the contract, if PPL's, LKE's, LG&E's or KU's or their subsidiaries' credit rating, as applicable, were to fall below investment grade. See Note 17 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral requirements for PPL, LKE and LG&E for derivative contracts in a net liability position at December 31, 2018.

Guarantees for Subsidiaries (PPL)

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

Off-Balance Sheet Arrangements (All Registrants)

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

Risk Management

Market Risk

(All Registrants)

See Notes 1, 16, and 17 to the Financial Statements for information about the Registrants' risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These are not precise indicators of expected future losses, but are rather only indicators of possible losses under normal market conditions at a given confidence level.

Interest Rate Risk

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

The following interest rate hedges were outstanding at December 31.

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	2018				2017			
	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)	
PPL								
Cash flow hedges								
Cross-currency swaps (c)	\$ 702	\$ 137	\$ (76)	2028	\$ 702	\$ 103	\$ (84)	
Economic hedges								
Interest rate swaps (d)	147	(20)	(1)	2033	147	(27)	(1)	
LKE								
Economic hedges								
Interest rate swaps (d)	147	(20)	(1)	2033	147	(27)	(1)	
LG&E								
Economic hedges								
Interest rate swaps (d)	147	(20)	(1)	2033	147	(27)	(1)	

(a) Includes accrued interest, if applicable.

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

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

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

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at December 31, 2018 and 2017 was insignificant for PPL, PPL Electric, LKE, LG&E and KU. The estimated impact of a 10% adverse movement in interest rates on the fair value of debt at December 31 is shown below.

	10% Adverse Movement in Rates	
	2018	2017
PPL	\$ 652	\$ 620
PPL Electric	188	162
LKE	172	168
LG&E	62	62
KU	92	92

Foreign Currency Risk (PPL)

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

The following foreign currency hedges were outstanding at December 31.

	2018				2017			
	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	Maturities Ranging Through	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)	
Economic hedges (b)	£ 1,540	\$ 201	\$ (181)	2020	£ 2,563	\$ 15	\$ (323)	

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

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

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(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 to the Financial Statements for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

Defined Benefit Plans - Equity Securities Price Risk

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

Credit Risk

(All Registrants)

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

(PPL and PPL Electric)

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

Under the standard Supply Master Agreement (the Agreement) for the competitive solicitation process, PPL Electric requires all suppliers to post collateral if their credit exposure exceeds an established credit limit. In the event a supplier defaults on its obligation, PPL Electric would be required to seek replacement power in the market. All incremental costs incurred by PPL Electric would be recoverable from customers in future rates. At December 31, 2018, most of the successful bidders under all of the solicitations had an investment grade credit rating from S&P, and were not required to post collateral under the Agreement. A small portion of bidders were required to post an insignificant amount of collateral under the Agreement. There is no instance under the Agreement in which PPL Electric is required to post collateral to its suppliers.

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

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Foreign Currency Translation (PPL)

The value of the British pound sterling fluctuates in relation to the U.S. dollar. In 2018, changes in this exchange rate resulted in a foreign currency translation loss of \$453 million, which primarily reflected a \$754 million decrease to PP&E and \$150 million decrease to goodwill partially offset by a \$445 million decrease to long-term debt and a \$6 million decrease to other net liabilities. In 2017, changes in this exchange rate resulted in a foreign currency translation gain of \$537 million, which primarily reflected a \$935 million increase to PP&E and \$198 million increase to goodwill partially offset by a \$549 million increase to long-term debt and an increase of \$47 million to other net liabilities. In 2016, changes in this exchange rate resulted in a foreign currency translation loss of \$1.1 billion, which primarily reflected a \$2.1 billion decrease to PP&E and \$490 million decrease to goodwill partially offset by a \$1.3 billion decrease to long-term debt and a decrease of \$208 million to other net liabilities.

(All Registrants)

Related Party Transactions

The Registrants are not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with the Registrants. See Note 14 to the Financial Statements for additional information on related party transactions for PPL Electric, LKE, LG&E and KU.

Acquisitions, Development and Divestitures

The Registrants from time to time evaluate opportunities for potential acquisitions, divestitures and development projects. Development projects are reexamined based on market conditions and other factors to determine whether to proceed with, modify or terminate the projects. Any resulting transactions may impact future financial results.

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

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

(All Registrants)

Environmental Matters

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 13 to the Financial Statements for a discussion of the more significant environmental matters including: Legal Matters, NAAQS, Climate Change and ELGs. See "Financial Condition - Liquidity and Capital Resources - Forecasted Uses of Cash - Capital Expenditures" in "Item 7. Combined Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on projected environmental capital expenditures for 2019 through 2023. See Note 19 to the Financial Statements for information related to the impacts of CCRs on AROs.

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

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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. 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 19 to the Financial Statements 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.

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Sustainability

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

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

Cybersecurity

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

Competition

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

New Accounting Guidance

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

Application of Critical Accounting Policies

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

Defined Benefits

(All Registrants)

Certain of the Registrants and/or their subsidiaries sponsor or participate in, as applicable, certain qualified funded and non-qualified unfunded defined benefit pension plans and both funded and unfunded other postretirement benefit plans. These plans are applicable to certain of the Registrants’ employees (based on eligibility for their applicable plans). The Registrants and certain of their subsidiaries record an asset or liability to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, in the case of PPL Electric, LG&E and KU, regulatory assets and liabilities for amounts that are expected to be recovered through regulated customer rates. Consequently, the funded status of all defined benefit plans is fully

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recognized on the Balance Sheets. See Notes 7 and 11 to the Financial Statements for additional information about the plans and the accounting for defined benefits.

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

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

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

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

- **Discount Rate** - The discount rate is used in calculating the present value of benefits, which is based on projections of benefit payments to be made in the future. The objective in selecting the discount rate is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due.
- **Expected Return on Plan Assets** - Management projects the long-term rates of return on plan assets that will be earned over the life of the plan. These projected returns reduce the net benefit costs the Registrants record currently.
- **Rate of Compensation Increase** - Management projects employees' annual pay increases, which are used to project employees' pension benefits at retirement.

(PL)

In selecting the discount rate for its U.K. pension plans, WPD starts with a cash flow analysis of the expected benefit payment stream for its plans. These plan-specific cash flows are matched against a spot-rate yield curve to determine the assumed discount rate. The spot-rate yield curve uses an iBoxx British pounds sterling denominated corporate bond index as its base. From this base, those bonds with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Historically, WPD used the single weighted-average discount rate derived from the spot rates used to discount the benefit obligation. Concurrent with the annual remeasurement of plan assets and obligations at December 31, 2015, WPD began using individual spot rates to measure service cost and interest cost beginning with the calculation of 2016 net periodic defined benefit cost.

An individual bond matching approach, which is used for the U.S. pension plans as discussed below, is not used for the U.K. pension plans because the universe of bonds in the U.K. is not deep enough to adequately support such an approach.

(All Registrants)

In selecting the discount rates for U.S. defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed.

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To determine the expected return on plan assets, plan sponsors project the long-term rates of return on plan assets using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

In selecting a rate of compensation increase, plan sponsors consider past experience in light of movements in inflation rates.

The following table provides the weighted-average assumptions selected for discount rate, expected return on plan assets and rate of compensation increase at December 31 used to measure current year obligations and subsequent year net periodic defined benefit costs under GAAP, as applicable.

Assumption / Registrant	2018	2017
<i>Discount rate</i>		
Pension - PPL (U.S.)	4.35%	3.70%
Pension - PPL (U.K.) Obligations	2.98%	2.65%
Pension - PPL (U.K.) Service Cost (a)	3.12%	2.73%
Pension - PPL (U.K.) Interest Cost (a)	2.62%	2.31%
Pension - LKE	4.35%	3.69%
Pension - LG&E	4.33%	3.65%
Other Postretirement - PPL	4.31%	3.64%
Other Postretirement - LKE	4.32%	3.65%
<i>Expected return on plan assets</i>		
Pension - PPL (U.S.)	7.25%	7.25%
Pension - PPL (U.K.)	7.21%	7.23%
Pension - LKE	7.25%	7.25%
Pension - LG&E	7.25%	7.25%
Other Postretirement - PPL	6.46%	6.40%
Other Postretirement - LKE	7.00%	7.15%
<i>Rate of compensation increase</i>		
Pension - PPL (U.S.)	3.79%	3.78%
Pension - PPL (U.K.)	3.50%	3.50%
Pension - LKE	3.50%	3.50%
Other Postretirement - PPL	3.76%	3.75%
Other Postretirement - LKE	3.50%	3.50%

(a) WPD uses individual spot rates from the yield curve used to discount the benefit obligation to measure service cost and interest cost for the calculation of net periodic defined benefit cost. PPL's U.S. plans use a single discount rate derived from an individual bond matching model to measure the benefit obligation, service cost and interest cost. See Note 1 to the Financial Statements for additional details.

A variance in the assumptions listed above could have a significant impact on accrued defined benefit liabilities or assets, reported annual net periodic defined benefit costs and AOCI or regulatory assets and liabilities. At December 31, 2018, the defined benefit plans were recorded in the Registrants' financial statements as follows.

	PPL	PPL Electric	LKE	LG&E	KU
<i>Balance Sheet:</i>					
Regulatory assets (a)	\$ 963	\$ 558	\$ 405	\$ 249	\$ 156
Regulatory liabilities	37	5	32	—	32
Pension assets	535	—	—	—	—
Pension liabilities	783	285	286	11	1
Other postretirement and postemployment benefit liabilities	239	120	100	69	31
AOCI (pre-tax)	3,209	—	121	—	—
<i>Statement of Income:</i>					
Defined benefits expense	\$ (184)	\$ 3	\$ 24	\$ 6	\$ 3
Increase (decrease) from prior year	(97)	(9)	(9)	(5)	(2)

(2) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15 year amortization period for actuarial gains and losses is

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recorded as a regulatory asset. At December 31, 2018, the balances were \$45 million for PPL and LKE, \$25 million for LG&E and \$20 million for KU. See Note 7 to the Financial Statements for additional information.

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

Actuarial assumption

Discount Rate	(0.25%)
Expected Return on Plan Assets	(0.25%)
Rate of Compensation Increase	0.25 %

Actuarial assumption	Increase (Decrease) Defined Benefit Asset	Increase (Decrease) Defined Benefit Liabilities	(Increase) Decrease AOCI (pre-tax)	Increase (Decrease) Net Regulatory Assets	Increase (Decrease) Defined Benefit Costs
PPL					
Discount rates	\$ (296)	\$ 134	\$ 342	\$ 88	\$ 43
Expected return on plan assets	n/a	n/a	n/a	n/a	30
Rate of compensation increase	(44)	15	51	9	12
PPL Electric					
Discount rates		55	—	55	7
Expected return on plan assets		n/a	—	n/a	4
Rate of compensation increase		6	—	6	1
LKE					
Discount rates		57	24	33	8
Expected return on plan assets		n/a	n/a	n/a	4
Rate of compensation increase		7	4	3	2
LG&E					
Discount rates		18	n/a	18	2
Expected return on plan assets		n/a	n/a	n/a	1
Rate of compensation increase		1	n/a	1	—
KU					
Discount rates		15	n/a	15	2
Expected return on plan assets		n/a	n/a	n/a	1
Rate of compensation increase		2	n/a	2	—

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 was eligible to claim in its 2017 federal income tax return; and (3) the related impacts on PPL's 2017 consolidated federal net operating loss to be carried forward to future periods. In addition, the Registrants recorded the tax impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on

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changes to deferred tax assets and liabilities resulting from the completed provisional amounts. The completed provisional amounts related to the tax rate reduction had an insignificant impact on the net regulatory liabilities of PPL's U.S. regulated operations. In the fourth quarter of 2018, PPL completed its analysis of the deductibility of executive compensation awarded as of November 2, 2017 and concluded that no material change to the provisional amounts is required.

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 is complete as of December 31, 2018 with respect to all provisional amounts.

In 2018, the IRS issued proposed regulations for certain provisions of the TCJA, including interest deductibility, Base Erosion Anti-Avoidance Tax (BEAT), and Global Intangible Low-Taxed Income (GILTI). PPL has determined that the proposed regulations related to BEAT and GILTI do not materially change PPL's current interpretation of the statutory impact of these rules on the company. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be 2019. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant.

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

Additionally, significant management judgment is required to determine the amount of benefit recognized related to an uncertain tax position. Tax positions are evaluated following a two-step process. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. Management considers a number of factors in assessing the benefit to be recognized, including negotiation of a settlement.

On a quarterly basis, uncertain tax positions are reassessed by considering information known as of the reporting date. Based on management's assessment of new information, a tax benefit may subsequently be recognized for a previously unrecognized tax position, a previously recognized tax position may be unrecognized, or the benefit of a previously recognized tax position may be remeasured. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in the future. Unrecognized tax benefits are classified as current to the extent management expects to settle an uncertain tax position by payment or receipt of cash within one year of the reporting date.

At December 31, 2018, no significant changes in unrecognized tax benefits are projected over the next 12 months.

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

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

Regulatory Assets and Liabilities

(All Registrants)

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

Management continually assesses whether the regulatory assets are probable of future recovery by considering factors such as changes in the applicable regulatory and political environments, the ability to recover costs through regulated rates, recent rate orders to the Registrants and other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate at the state and federal levels, and is subject to change in the future. If future recovery of costs ceases to be probable, the regulatory asset would be written-off. Additionally, the regulatory agencies can provide flexibility in the manner and timing of recovery of regulatory assets.

See Note 7 to the Financial Statements for regulatory assets and regulatory liabilities recorded at December 31, 2018 and 2017, as well as additional information on those regulatory assets and liabilities. All regulatory assets are either currently being recovered under specific rate orders, represent amounts that are expected to be recovered in future rates or benefit future periods based upon established regulatory practices.

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. As the regulatory model is incentive-based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP for entities subject to cost-based rate regulation and does not record regulatory assets and liabilities. Therefore, the accounting treatment of adjustments to base revenue and/or allowed revenue is evaluated based on revenue recognition guidance. See Note 1 to the Financial Statements for additional information.

Price Risk Management (PPL)

See "Financial Condition - Risk Management" above, as well as "Price Risk Management" in Note 1 to the Financial Statements.

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

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

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary.

When the two-step quantitative impairment test is elected or required as a result of the step zero assessment, in step one, PPL, LKE, LG&E and KU determine whether a potential impairment exists by comparing the estimated fair value of the reporting unit with its carrying amount, including goodwill, on the measurement date. If the estimated fair value exceeds its carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the estimated fair value, the second step is performed to measure the amount of impairment loss, if any.

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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. That is, the estimated fair value of a reporting unit is allocated to all of the assets and liabilities of that reporting unit as if the reporting unit had been acquired in a business combination and the estimated fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the estimated fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of the reporting unit's goodwill.

PPL, LKE, LG&E and KU elected to perform the two-step quantitative impairment test of goodwill for all reporting units in the fourth quarter of 2018. Management used both discounted cash flows and market multiples, which required significant assumptions, to estimate the fair value of the reporting units. Significant assumptions used in the discounted cash flows include discount and growth rates, outcomes of future rate filings, and projected operating and capital cash flows. Projected operating and capital cash flows is based on the Registrants' internal business plan, which assumes the occurrence of certain events in the future. Significant assumptions used in the market multiples include utility sector market performance and comparable transactions.

PPL's goodwill was \$3.2 billion at December 31, 2018, which primarily consists of \$2.4 billion related to the acquisition of WPD and \$662 million related to the acquisition of LKE. The goodwill balances of LKE, LG&E and KU at December 31, 2018 were \$996 million, \$389 million and \$607 million. Applying an appropriate weighting to both the discounted cash flow and market multiple valuations for the most recent impairment tests performed as of October 1, 2018 did not require the second-step assessment and did not result in any impairment.

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

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

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

See Note 7 and Note 19 to the Financial Statements for additional information on AROs.

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

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December 31, 2018, the total recorded balances and information on the most significant recorded AROs were as follows.

	Total ARO Recorded	Most Significant AROs		
		Amount Recorded	% of Total	Description
PPL	\$ 347	\$ 245	71	Ponds, landfills and natural gas mains
LKE	296	245	83	Ponds, landfills and natural gas mains
LG&E	103	81	79	Ponds, landfills and natural gas mains
KU	193	164	85	Ponds and landfills

The most significant assumptions surrounding AROs are the forecasted retirement costs (including the settlement dates and the timing of cash flows), the discount rates and the inflation rates. At December 31, 2018, a 10% increase to retirement cost would increase these ARO liabilities by \$33 million. A 0.25% decrease in the discount rate would increase these ARO liabilities by \$4 million and a 0.25% increase in the inflation rate would increase these ARO liabilities by \$3 million. There would be no significant change to the annual depreciation expense of the ARO asset or the annual accretion expense of the ARO liability as a result of these changes in assumptions.

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

Revenues related to the sale of energy are recorded when service is rendered or when energy is delivered to customers. Because customers are billed on cycles which vary based on the timing of the actual meter reads taken throughout the month, estimates are recorded for unbilled revenues at the end of each reporting period. For LG&E and KU, such unbilled revenue amounts reflect estimates of deliveries to customers since the date of the last reading of their meters. The unbilled revenue estimates reflect consideration of factors including daily load models, estimated usage for each customer class, the effect of current and different rate schedules, the meter read schedule, the billing schedule, actual weather data and where applicable, the impact of weather normalization or other regulatory provisions of rate structures. See "Unbilled revenues" on the Registrants' Balance Sheets for balances at December 31, 2018 and 2017.

Other Information (All Registrants)

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PPL Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

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

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 14, 2019

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareowners and the Board of Directors of PPL Corporation

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of PPL Corporation and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 14, 2019, expressed an unqualified opinion on those financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 14, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of PPL Electric Utilities Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 14, 2019

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of LG&E and KU Energy LLC and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Deloitte & Touche LLP

Louisville, Kentucky
February 14, 2019

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Louisville Gas and Electric Company (the "Company") as of December 31, 2018 and 2017, the related statements of income, equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Deloitte & Touche LLP

Louisville, Kentucky
February 14, 2019

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Kentucky Utilities Company (the "Company") as of December 31, 2018 and 2017, the related statements of income, equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

/s/ Deloitte & Touche LLP

Louisville, Kentucky
February 14, 2019

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

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EM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

(Millions of Dollars, except share data)

	2018	2017	2016
Operating Revenues	\$ 7,785	\$ 7,447	\$ 7,517
Operating Expenses			
Operation			
Fuel	799	759	791
Energy purchases	745	685	706
Other operation and maintenance	1,983	1,802	1,857
Depreciation	1,094	1,008	926
Taxes, other than income	312	292	301
Total Operating Expenses	4,933	4,546	4,581
Operating Income	2,852	2,901	2,936
Other Income (Expense) - net	396	(88)	502
Interest Expense	963	901	888
Income Before Income Taxes	2,285	1,912	2,550
Income Taxes	458	784	648
Net Income	\$ 1,827	\$ 1,128	\$ 1,902
Earnings Per Share of Common Stock:			
Net Income Available to PPL Common Shareowners:			
Basic	\$ 2.59	\$ 1.64	\$ 2.80
Diluted	\$ 2.58	\$ 1.64	\$ 2.79
Weighted-Average Shares of Common Stock Outstanding (in thousands)			
Basic	704,439	685,240	677,592
Diluted	708,619	687,334	680,446

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

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

	2018	2017	2016
Net income	\$ 1,827	\$ 1,128	\$ 1,902
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Foreign currency translation adjustments, net of tax of (\$2), (\$1), (\$4)	(444)	538	(1,107)
Qualifying derivatives, net of tax of (\$9), \$19, (\$18)	36	(79)	91
Defined benefit plans:			
Prior service costs, net of tax of \$3, \$0, \$2	(11)	—	(3)
Net actuarial gain (loss), net of tax of \$44, \$72, \$40	(187)	(308)	(61)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Qualifying derivatives, net of tax of \$6, (\$18), \$21	(29)	73	(91)
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0	—	1	(1)
Defined benefit plans:			
Prior service costs, net of tax of \$0, (\$1), (\$1)	2	1	1
Net actuarial (gain) loss, net of tax of (\$36), (\$37), (\$35)	142	130	121
Total other comprehensive income (loss)	(491)	356	(1,050)
Comprehensive income	\$ 1,336	\$ 1,484	\$ 852

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

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

(Millions of Dollars)

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	\$ 1,827	\$ 1,128	\$ 1,902
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,094	1,008	926
Amortization	78	97	80
Defined benefit plans - (income)	(192)	(95)	(40)
Deferred income taxes and investment tax credits	355	707	560
Unrealized (gains) losses on derivatives, and other hedging activities	(186)	178	19
Stock compensation expense	26	38	28
Other	(3)	(9)	(12)
Change in current assets and current liabilities			
Accounts receivable	28	(33)	(15)
Accounts payable	78	(10)	57
Unbilled revenues	41	(48)	(63)
Fuel, materials and supplies	17	40	(3)
Customer deposits	(35)	16	(50)
Regulatory assets and liabilities, net	13	(12)	(59)
Other current liabilities	(22)	6	(6)
Other	33	(5)	55
Other operating activities			
Defined benefit plans - funding	(361)	(565)	(427)
Proceeds from transfer of excess benefit plan funds	65	—	—
Other assets	(75)	32	33
Other liabilities	40	(12)	(95)
Net cash provided by operating activities	<u>2,821</u>	<u>2,461</u>	<u>2,890</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(3,238)	(3,133)	(2,920)
Purchase of available-for-sale securities	(65)	—	—
Other investing activities	(58)	(28)	(6)
Net cash used in investing activities	<u>(3,361)</u>	<u>(3,161)</u>	<u>(2,926)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	1,059	1,515	1,342
Retirement of long-term debt	(277)	(168)	(930)
Issuance of common stock	698	453	144
Payment of common stock dividends	(1,133)	(1,072)	(1,030)
Net increase in short-term debt	363	115	29
Other financing activities	(20)	(19)	6
Net cash provided by (used in) financing activities	<u>690</u>	<u>824</u>	<u>(439)</u>
Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash	<u>(18)</u>	<u>15</u>	<u>(28)</u>
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	<u>132</u>	<u>139</u>	<u>(503)</u>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	511	372	875
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 643</u>	<u>\$ 511</u>	<u>\$ 372</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for:			
Interest - net of amount capitalized	\$ 910	\$ 845	\$ 854
Income taxes - net	\$ 127	\$ 65	\$ 70
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 345	\$ 360	\$ 281
Accrued expenditures for intangible assets at December 31,	\$ 64	\$ 68	\$ 117

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,

PPL Corporation and Subsidiaries

(Millions of Dollars, shares in thousands)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 621	\$ 485
Accounts receivable (less reserve: 2018, \$56; 2017, \$51)		
Customer	663	681
Other	107	100
Unbilled revenues	496	543
Fuel, materials and supplies	303	320
Prepayments	70	66
Price risk management assets	109	49
Other current assets	63	50
Total Current Assets	2,432	2,294
Property, Plant and Equipment		
Regulated utility plant	39,734	38,228
Less: accumulated depreciation - regulated utility plant	7,310	6,785
Regulated utility plant, net	32,424	31,443
Non-regulated property, plant and equipment	355	384
Less: accumulated depreciation - non-regulated property, plant and equipment	101	110
Non-regulated property, plant and equipment, net	254	274
Construction work in progress	1,780	1,375
Property, Plant and Equipment, net	34,458	33,092
Other Noncurrent Assets		
Regulatory assets	1,673	1,504
Goodwill	3,162	3,258
Other intangibles	716	697
Pension benefit asset	535	284
Price risk management assets	228	215
Other noncurrent assets	192	135
Total Other Noncurrent Assets	6,506	6,093
Total Assets	\$ 43,396	\$ 41,479

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2018	2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 1,430	\$ 1,080
Long-term debt due within one year	530	348
Accounts payable	989	924
Taxes	110	105
Interest	278	282
Dividends	296	273
Customer deposits	257	292
Regulatory liabilities	122	95
Other current liabilities	551	624
Total Current Liabilities	4,563	4,023
Long-term Debt	20,069	19,847
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	2,796	2,462
Investment tax credits	126	129
Accrued pension obligations	771	800
Asset retirement obligations	264	312
Regulatory liabilities	2,714	2,704
Other deferred credits and noncurrent liabilities	436	441
Total Deferred Credits and Other Noncurrent Liabilities	7,107	6,848
Commitments and Contingent Liabilities (Notes 7 and 13)		
Equity		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	11,021	10,305
Earnings reinvested	4,593	3,871
Accumulated other comprehensive loss	(3,964)	(3,422)
Total Equity	11,657	10,761
Total Liabilities and Equity	\$ 43,396	\$ 41,479

(a) 1,560,000 shares authorized; 720,323 and 693,398 shares issued and outstanding at December 31, 2018 and December 31, 2017.

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

CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries
(Millions of Dollars)

	PPL Shareowners					Total
	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	
December 31, 2015	673,857	\$ 7	\$ 9,687	\$ 2,953	\$ (2,728)	\$ 9,919
Common stock issued	5,874		185			185
Stock-based compensation			(31)			(31)
Net income				1,902		1,902
Dividends and dividend equivalents (b)				(1,033)		(1,033)
Other comprehensive income (loss)					(1,050)	(1,050)
Adoption of stock-based compensation guidance cumulative effect adjustment (Note 1)				7		7
December 31, 2016	679,731	\$ 7	\$ 9,841	\$ 3,829	\$ (3,778)	\$ 9,899
Common stock issued	13,667		482			482
Stock-based compensation			(18)			(18)
Net income				1,128		1,128
Dividends and dividend equivalents (b)				(1,086)		(1,086)
Other comprehensive income (loss)					356	356
December 31, 2017	693,398	\$ 7	\$ 10,305	\$ 3,871	\$ (3,422)	\$ 10,761
Common stock issued	26,925		718			718
Stock-based compensation			(2)			(2)
Net income				1,827		1,827
Dividends and dividend equivalents (b)				(1,156)		(1,156)
Other comprehensive income (loss)					(491)	(491)
Adoption of reclassification of certain tax effects from AOCI guidance cumulative effect adjustment (Note 1)				51	(51)	—
December 31, 2018	720,323	\$ 7	\$ 11,021	\$ 4,593	\$ (3,964)	\$ 11,657

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented at any shareowners' meeting.
(b) Dividends declared per share of common stock at December 31, 2018, 2017 and 2016: \$1.64, \$1.58 and \$1.52.

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

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

(Millions of Dollars)

	2018	2017	2016
Operating Revenues	\$ 2,277	\$ 2,195	\$ 2,156
Operating Expenses			
Operation			
Energy purchases	544	507	535
Other operation and maintenance	578	572	602
Depreciation	352	309	253
Taxes, other than income	109	107	105
Total Operating Expenses	1,583	1,495	1,495
Operating Income	694	700	661
Other Income (Expense) - net	23	12	20
Interest Income from Affiliate	8	5	—
Interest Expense	159	142	129
Income Before Income Taxes	566	575	552
Income Taxes	136	213	212
Net Income (a)	\$ 430	\$ 362	\$ 340

(a) Net income equals comprehensive income.

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

UNCONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,**PPL Electric Utilities Corporation and Subsidiaries***(Millions of Dollars)*

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	\$ 430	\$ 362	\$ 340
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	352	309	253
Amortization	22	33	32
Defined benefit plans - expense	3	12	11
Deferred income taxes and investment tax credits	125	258	221
Other	(4)	(8)	(13)
Change in current assets and current liabilities			
Accounts receivable	47	(57)	16
Accounts payable	10	3	58
Unbilled revenues	7	(13)	(23)
Prepayments	1	3	43
Regulatory assets and liabilities	(19)	(5)	(62)
Taxes payable	4	(4)	(12)
Other	10	(1)	(7)
Other operating activities			
Defined benefit plans - funding	(28)	(24)	—
Other assets	(37)	15	19
Other liabilities	55	(3)	(4)
Net cash provided by operating activities	<u>978</u>	<u>880</u>	<u>872</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(1,192)	(1,244)	(1,125)
Expenditures for intangible assets	(4)	(10)	(9)
Other investing activities	3	2	4
Net cash used in investing activities	<u>(1,193)</u>	<u>(1,252)</u>	<u>(1,130)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	398	470	224
Retirement of long-term debt	—	—	(224)
Contributions from PPL	429	575	220
Payment of common stock dividends to parent	(390)	(336)	(288)
Net increase (decrease) in short-term debt	—	(295)	295
Other financing activities	(4)	(6)	(3)
Net cash provided by financing activities	<u>433</u>	<u>408</u>	<u>224</u>
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	218	36	(34)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	51	15	49
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 269</u>	<u>\$ 51</u>	<u>\$ 15</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 144	\$ 128	\$ 115
Income taxes - net	\$ (20)	\$ 4	\$ (48)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 158	\$ 133	\$ 126

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 267	\$ 49
Accounts receivable (less reserve: 2018, \$27; 2017, \$24)		
Customer	264	279
Other	38	71
Accounts receivable from affiliates	11	—
Unbilled revenues	120	127
Materials and supplies	25	34
Prepayments	5	6
Regulatory assets	11	16
Other current assets	9	6
Total Current Assets	750	588
Property, Plant and Equipment		
Regulated utility plant	11,637	10,785
Less: accumulated depreciation - regulated utility plant	2,856	2,778
Regulated utility plant, net	8,781	8,007
Construction work in progress	586	508
Property, Plant and Equipment, net	9,367	8,515
Other Noncurrent Assets		
Regulatory assets	824	709
Intangibles	260	259
Other noncurrent assets	42	11
Total Other Noncurrent Assets	1,126	979
Total Assets	\$ 11,243	\$ 10,082

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars, shares in thousands)

	2018	2017
Liabilities and Equity		
Current Liabilities		
Accounts payable	\$ 418	\$ 386
Accounts payable to affiliates	25	31
Taxes	12	8
Interest	37	36
Regulatory liabilities	74	86
Other current liabilities	101	98
Total Current Liabilities	667	645
Long-term Debt	3,694	3,298
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	1,320	1,154
Accrued pension obligations	282	246
Regulatory liabilities	675	668
Other deferred credits and noncurrent liabilities	144	79
Total Deferred Credits and Other Noncurrent Liabilities	2,421	2,147
Commitments and Contingent Liabilities (Notes 7 and 13)		
Equity		
Common stock - no par value (a)	364	364
Additional paid-in capital	3,158	2,729
Earnings reinvested	939	899
Total Equity	4,461	3,992
Total Liabilities and Equity	\$ 11,243	\$ 10,082

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

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

CONSOLIDATED STATEMENTS OF EQUITY
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid- in capital	Earnings reinvested	Total
December 31, 2015	66,368	\$ 364	\$ 1,934	\$ 821	\$ 3,119
Net income				340	340
Capital contributions from parent			220		220
Dividends declared on common stock				(288)	(288)
December 31, 2016	66,368	\$ 364	\$ 2,154	\$ 873	\$ 3,391
Net income				362	362
Capital contributions from parent			575		575
Dividends declared on common stock				(336)	(336)
December 31, 2017	66,368	\$ 364	\$ 2,729	\$ 899	\$ 3,992
Net income				430	430
Capital contributions from parent			429		429
Dividends declared on common stock				(390)	(390)
December 31, 2018	66,368	\$ 364	\$ 3,158	\$ 939	\$ 4,461

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

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

**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries**

(Millions of Dollars)

	2018	2017	2016
Operating Revenues	\$ 3,214	\$ 3,156	\$ 3,141
Operating Expenses			
Operation			
Fuel	799	759	791
Energy purchases	201	178	171
Other operation and maintenance	848	801	798
Depreciation	475	439	404
Taxes, other than income	70	65	62
Total Operating Expenses	2,393	2,242	2,226
Operating Income	821	914	915
Other Income (Expense) - net	(16)	(8)	(15)
Interest Expense	206	197	197
Interest Expense with Affiliate	25	18	17
Income Before Income Taxes	574	691	686
Income Taxes	129	375	257
Net Income	\$ 445	\$ 316	\$ 429

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2018	2017	2016
Net income	\$ 445	\$ 316	\$ 429
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Defined benefit plans:			
Prior service costs, net of tax of \$0, \$1, \$0	—	(2)	—
Net actuarial gain (loss), net of tax of (\$2), \$13, \$18	7	(23)	(27)
Reclassifications to net income - (gains) losses, net of tax expense (benefit):			
Equity investees' other comprehensive (income) loss, net of tax of \$0, \$0, \$0	—	1	(1)
Defined benefit plans:			
Prior service costs, net of tax of \$0, (\$1), (\$1)	2	1	2
Net actuarial (gain) loss, net of tax of (\$3), (\$2), (\$1)	8	5	2
Total other comprehensive income (loss)	17	(18)	(24)
Comprehensive income	\$ 462	\$ 298	\$ 405

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

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**UNCONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
2018 and 2017 and 2016**

(Millions of Dollars)

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	\$ 445	\$ 316	\$ 429
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	475	439	404
Amortization	18	24	29
Defined benefit plans - expense	17	25	27
Deferred income taxes and investment tax credits	94	294	291
Other	(4)	—	—
Change in current assets and current liabilities			
Accounts receivable	1	(12)	(31)
Accounts payable	39	(9)	24
Accounts payable to affiliates	2	2	1
Unbilled revenues	34	(33)	(23)
Fuel, materials and supplies	7	45	2
Regulatory assets and liabilities, net	32	(7)	1
Taxes payable	(3)	27	(7)
Other	(24)	41	(6)
Other operating activities			
Defined benefit plans - funding	(131)	(35)	(85)
Settlement of interest rate swaps	—	—	(9)
Expenditures for asset retirement obligations	(72)	(34)	(26)
Other assets	(24)	8	2
Other liabilities	9	8	4
Net cash provided by operating activities	<u>915</u>	<u>1,099</u>	<u>1,027</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(1,117)	(892)	(791)
Other investing activities	1	4	1
Net cash used in investing activities	<u>(1,116)</u>	<u>(888)</u>	<u>(790)</u>
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable with affiliates	(112)	62	109
Issuance of long-term note with affiliate	250	—	—
Issuance of long-term debt	118	160	221
Retirement of long-term debt	(27)	(70)	(246)
Distributions to member	(302)	(402)	(316)
Contributions from member	—	—	61
Net increase (decrease) in short-term debt	270	59	(80)
Other financing activities	(2)	(3)	(3)
Net cash provided by (used in) financing activities	<u>195</u>	<u>(194)</u>	<u>(254)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(6)</u>	<u>17</u>	<u>(17)</u>
Cash and Cash Equivalents at Beginning of Period	30	13	30
Cash and Cash Equivalents at End of Period	<u>\$ 24</u>	<u>\$ 30</u>	<u>\$ 13</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 218	\$ 204	\$ 198
Income taxes - net	\$ 46	\$ 48	\$ (24)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 150	\$ 174	\$ 104

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PLG&E and KU Energy LLC and Subsidiaries

(Millions of Dollars)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 24	\$ 30
Accounts receivable (less reserve: 2018, \$27; 2017, \$25)		
Customer	239	246
Other	63	44
Unbilled revenues	169	203
Fuel, materials and supplies	248	254
Prepayments	25	25
Regulatory assets	25	18
Other current assets	—	8
Total Current Assets	793	828
Property, Plant and Equipment		
Regulated utility plant	13,721	13,187
Less: accumulated depreciation - regulated utility plant	2,125	1,785
Regulated utility plant, net	11,596	11,402
Construction work in progress	1,018	627
Property, Plant and Equipment, net	12,614	12,029
Other Noncurrent Assets		
Regulatory assets	849	795
Goodwill	996	996
Other intangibles	78	86
Other noncurrent assets	82	68
Total Other Noncurrent Assets	2,005	1,945
Total Assets	\$ 15,412	\$ 14,802

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

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
PLG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	2018	2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 514	\$ 244
Long-term debt due within one year	530	98
Notes payable with affiliates	113	225
Accounts payable	366	338
Accounts payable to affiliates	9	7
Customer deposits	61	58
Taxes	63	66
Price risk management liabilities	4	4
Regulatory liabilities	48	9
Interest	32	32
Asset retirement obligations	82	85
Other current liabilities	126	161
Total Current Liabilities	1,948	1,327
Long-term Debt		
Long-term debt	4,322	4,661
Long-term debt to affiliate	650	400
Total Long-term Debt	4,972	5,061
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	956	866
Investment tax credits	126	129
Price risk management liabilities	16	22
Accrued pension obligations	282	365
Asset retirement obligations	214	271
Regulatory liabilities	2,039	2,036
Other deferred credits and noncurrent liabilities	136	162
Total Deferred Credits and Other Noncurrent Liabilities	3,769	3,851
Commitments and Contingent Liabilities (Notes 7 and 13)		
Member's equity	4,723	4,563
Total Liabilities and Equity	\$ 15,412	\$ 14,802

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

CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries
(Millions of Dollars)

	Member's Equity
December 31, 2015	\$ 4,517
Net income	429
Contributions from member	61
Distributions to member	(316)
Other comprehensive income (loss)	(24)
December 31, 2016	\$ 4,667
Net income	316
Distributions to member	(402)
Other comprehensive income (loss)	(18)
December 31, 2017	\$ 4,563
Net income	445
Distributions to member	(302)
Other comprehensive income (loss)	17
December 31, 2018	\$ 4,723

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

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**STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company**

(Millions of Dollars)

	2018	2017	2016
Operating Revenues			
Retail and wholesale	\$ 1,467	\$ 1,422	\$ 1,406
Electric revenue from affiliate	29	31	24
Total Operating Revenues	1,496	1,453	1,430
Operating Expenses			
Operation			
Fuel	308	292	301
Energy purchases	183	160	153
Energy purchases from affiliate	13	10	14
Other operation and maintenance	376	350	350
Depreciation	195	183	170
Taxes, other than income	36	33	32
Total Operating Expenses	1,111	1,028	1,020
Operating Income	385	425	410
Other Income (Expense) – net	(12)	(10)	(10)
Interest Expense	76	71	71
Income Before Income Taxes	297	344	329
Income Taxes	64	131	126
Net Income (a)	\$ 233	\$ 213	\$ 203

(a) Net income equals comprehensive income.

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars)

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	\$ 233	\$ 213	\$ 203
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	195	183	170
Amortization	14	14	14
Defined benefit plans - expense	3	7	8
Deferred income taxes and investment tax credits	60	126	147
Other	—	1	—
Change in current assets and current liabilities			
Accounts receivable	4	(7)	(22)
Accounts receivable from affiliates	—	4	(16)
Accounts payable	10	(7)	31
Accounts payable to affiliates	1	(4)	1
Unbilled revenues	14	(16)	(8)
Fuel, materials and supplies	4	12	8
Regulatory assets and liabilities, net	5	(5)	(1)
Taxes payable	1	(15)	20
Other	(10)	16	(2)
Other operating activities			
Defined benefit plans - funding	(61)	(4)	(46)
Settlement of interest rate swaps	—	—	(9)
Expenditures for asset retirement obligations	(22)	(15)	(18)
Other assets	(12)	5	—
Other liabilities	4	4	2
Net cash provided by operating activities	443	512	482
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(554)	(458)	(439)
Net cash used in investing activities	(554)	(458)	(439)
Cash Flows from Financing Activities			
Issuance of long-term debt	100	160	125
Retirement of long-term debt	—	(70)	(150)
Payment of common stock dividends to parent	(156)	(192)	(128)
Contributions from parent	83	30	71
Net increase in short-term debt	80	30	27
Other financing activities	(1)	(2)	(2)
Net cash provided by (used in) financing activities	106	(44)	(57)
Net Increase (Decrease) in Cash and Cash Equivalents	(5)	10	(14)
Cash and Cash Equivalents at Beginning of Period	15	5	19
Cash and Cash Equivalents at End of Period	\$ 10	\$ 15	\$ 5
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 71	\$ 65	\$ 65
Income taxes - net	\$ 7	\$ 22	\$ (43)
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 61	\$ 92	\$ 56

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

BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 10	\$ 15
Accounts receivable (less reserve: 2018, \$1; 2017, \$1)		
Customer	110	116
Other	30	13
Unbilled revenues	77	91
Accounts receivable from affiliates	24	24
Fuel, materials and supplies	127	131
Prepayments	12	11
Regulatory assets	21	12
Other current assets	—	3
Total Current Assets	411	416
Property, Plant and Equipment		
Regulated utility plant	5,816	5,587
Less: accumulated depreciation - regulated utility plant	741	614
Regulated utility plant, net	5,075	4,973
Construction work in progress	514	305
Property, Plant and Equipment, net	5,589	5,278
Other Noncurrent Assets		
Regulatory assets	431	411
Goodwill	389	389
Other intangibles	47	53
Other noncurrent assets	16	12
Total Other Noncurrent Assets	883	865
Total Assets	\$ 6,883	\$ 6,559

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

BALANCE SHEETS AT DECEMBER 31,
Louisville Gas and Electric Company
(Millions of Dollars, shares in thousands)

	2018	2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 279	\$ 199
Long-term debt due within one year	434	98
Accounts payable	172	179
Accounts payable to affiliates	26	23
Customer deposits	29	27
Taxes	26	25
Price risk management liabilities	4	4
Regulatory liabilities	17	3
Interest	11	11
Asset retirement obligations	23	24
Other current liabilities	39	52
Total Current Liabilities	1,060	645
Long-term Debt	1,375	1,611
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	628	572
Investment tax credits	34	35
Price risk management liabilities	16	22
Accrued pension obligations	11	45
Asset retirement obligations	80	97
Regulatory liabilities	915	919
Other deferred credits and noncurrent liabilities	77	86
Total Deferred Credits and Other Noncurrent Liabilities	1,761	1,776
Commitments and Contingent Liabilities (Notes 7 and 13)		
Equity		
Common stock - no par value (a)	424	424
Additional paid-in capital	1,795	1,712
Earnings reinvested	468	391
Total Equity	2,687	2,527
Total Liabilities and Equity	\$ 6,883	\$ 6,559

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

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

STATEMENTS OF EQUITY
Louisville Gas and Electric Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2015	21,294	\$ 424	\$ 1,611	\$ 295	\$ 2,330
Net income				203	203
Capital contributions from LKE			71		71
Cash dividends declared on common stock				(128)	(128)
December 31, 2016	21,294	\$ 424	\$ 1,682	\$ 370	\$ 2,476
Net income				213	213
Capital contributions from LKE			30		30
Cash dividends declared on common stock				(192)	(192)
December 31, 2017	21,294	\$ 424	\$ 1,712	\$ 391	\$ 2,527
Net income				233	233
Capital contributions from LKE			83		83
Cash dividends declared on common stock				(156)	(156)
December 31, 2018	21,294	\$ 424	\$ 1,795	\$ 468	\$ 2,687

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

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

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**STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company**

(Millions of Dollars)

	2018	2017	2016
Operating Revenues			
Retail and wholesale	\$ 1,747	\$ 1,734	\$ 1,735
Electric revenue from affiliate	13	10	14
Total Operating Revenues	1,760	1,744	1,749
Operating Expenses			
Operation			
Fuel	491	467	490
Energy purchases	18	18	18
Energy purchases from affiliate	29	31	24
Other operation and maintenance	441	423	422
Depreciation	279	255	234
Taxes, other than income	34	32	30
Total Operating Expenses	1,292	1,226	1,218
Operating Income	468	518	531
Other Income (Expense) – net	(6)	(4)	(7)
Interest Expense	100	96	96
Income Before Income Taxes	362	418	428
Income Taxes	76	159	163
Net Income (a)	\$ 286	\$ 259	\$ 265

(a) Net income approximates comprehensive income.

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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars)

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	\$ 286	\$ 259	\$ 265
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation	279	255	234
Amortization	3	9	14
Defined benefit plans - expense	—	4	5
Deferred income taxes and investment tax credits	48	152	126
Other	(4)	—	(1)
Change in current assets and current liabilities			
Accounts receivable	(4)	(5)	(8)
Accounts payable	29	—	(10)
Accounts payable to affiliates	(3)	(6)	15
Unbilled revenues	20	(17)	(15)
Fuel, materials and supplies	3	32	(6)
Regulatory assets and liabilities, net	27	(2)	2
Taxes payable	5	(26)	25
Other	(3)	9	(4)
Other operating activities			
Defined benefit plans - funding	(54)	(23)	(20)
Expenditures for asset retirement obligations	(50)	(19)	(8)
Other assets	(12)	3	(6)
Other liabilities	11	9	(2)
Net cash provided by operating activities	<u>581</u>	<u>634</u>	<u>606</u>
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(562)	(432)	(350)
Other investing activities	1	4	1
Net cash used in investing activities	<u>(561)</u>	<u>(428)</u>	<u>(349)</u>
Cash Flows from Financing Activities			
Issuance of long-term debt	18	—	96
Retirement of long-term debt	(27)	—	(96)
Payment of common stock dividends to parent	(246)	(226)	(248)
Contributions from parent	45	—	20
Net increase (decrease) in short-term debt	190	29	(32)
Other financing activities	(1)	(1)	(1)
Net cash used in financing activities	<u>(21)</u>	<u>(198)</u>	<u>(261)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(1)</u>	<u>8</u>	<u>(4)</u>
Cash and Cash Equivalents at Beginning of Period	15	7	11
Cash and Cash Equivalents at End of Period	<u>\$ 14</u>	<u>\$ 15</u>	<u>\$ 7</u>
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	\$ 95	\$ 92	\$ 89
Income taxes - net	\$ 25	\$ 34	\$ 13
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	\$ 88	\$ 82	\$ 47

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

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BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 14	\$ 15
Accounts receivable (less reserve: 2018, \$2; 2017, \$1)		
Customer	129	130
Other	34	30
Unbilled revenues	92	112
Fuel, materials and supplies	121	123
Prepayments	11	14
Regulatory assets	4	6
Other current assets	—	5
Total Current Assets	405	435
Property, Plant and Equipment		
Regulated utility plant	7,895	7,592
Less: accumulated depreciation - regulated utility plant	1,382	1,170
Regulated utility plant, net	6,513	6,422
Construction work in progress	503	321
Property, Plant and Equipment, net	7,016	6,743
Other Noncurrent Assets		
Regulatory assets	418	384
Goodwill	607	607
Other intangibles	31	33
Other noncurrent assets	63	52
Total Other Noncurrent Assets	1,119	1,076
Total Assets	\$ 8,540	\$ 8,254

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

BALANCE SHEETS AT DECEMBER 31,
Kentucky Utilities Company
(Millions of Dollars, shares in thousands)

	2018	2017
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 235	\$ 45
Long-term debt due within one year	96	—
Accounts payable	171	137
Accounts payable to affiliates	53	53
Customer deposits	32	31
Taxes	24	19
Regulatory liabilities	31	6
Interest	16	16
Asset retirement obligations	59	61
Other current liabilities	35	46
Total Current Liabilities	752	414
Long-term Debt	2,225	2,328
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	735	691
Investment tax credits	92	94
Accrued pension obligations	1	36
Asset retirement obligations	134	174
Regulatory liabilities	1,124	1,117
Other deferred credits and noncurrent liabilities	35	43
Total Deferred Credits and Other Noncurrent Liabilities	2,121	2,155
Commitments and Contingent Liabilities (Notes 7 and 13)		
Equity		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,661	2,616
Earnings reinvested	473	433
Total Equity	3,442	3,357
Total Liabilities and Equity	\$ 8,540	\$ 8,254

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

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

STATEMENTS OF EQUITY
Kentucky Utilities Company
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive income (loss)	Total
December 31, 2015	37,818	\$ 308	\$ 2,596	\$ 383	\$ —	\$ 3,287
Net income				265		265
Capital contributions from LKE			20			20
Cash dividends declared on common stock				(248)		(248)
Other comprehensive income (loss)					(1)	(1)
December 31, 2016	37,818	\$ 308	\$ 2,616	\$ 400	\$ (1)	\$ 3,323
Net income				259		259
Cash dividends declared on common stock				(226)		(226)
Other comprehensive income (loss)					1	1
December 31, 2017	37,818	\$ 308	\$ 2,616	\$ 433	\$ —	\$ 3,357
Net income				286		286
Capital contributions from LKE			45			45
Cash dividends declared on common stock				(246)		(246)
December 31, 2018	37,818	\$ 308	\$ 2,661	\$ 473	\$ —	\$ 3,442

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

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

COMBINED NOTES TO FINANCIAL STATEMENTS

Index to Combined Notes to Consolidated Financial Statements

The notes to the consolidated financial statements that follow are a combined presentation. The following list indicates the Registrants to which the footnotes apply:

	Registrant				
	PPL	PPL Electric	LKE	LG&E	KU
1. Summary of Significant Accounting Policies	x	x	x	x	x
2. Segment and Related Information	x	x	x	x	x
3. Revenue from Contracts with Customers	x	x	x	x	x
4. Preferred Securities	x	x		x	x
5. Earnings Per Share	x				
6. Income and Other Taxes	x	x	x	x	x
7. Utility Rate Regulation	x	x	x	x	x
8. Financing Activities	x	x	x	-x	x
9. Leases	x		x	x	x
10. Stock-Based Compensation	x	x	x		
11. Retirement and Postemployment Benefits	x	x	x	x	x
12. Jointly Owned Facilities	x		x	x	x
13. Commitments and Contingencies	x	x	x	x	x
14. Related Party Transactions		x	x	x	x
15. Other Income (Expense) - net	x	x			
16. Fair Value Measurements	x	x	x	x	x
17. Derivative Instruments and Hedging Activities	x	x	x	x	x
18. Goodwill and Other Intangible Assets	x	x	x	x	x
19. Asset Retirement Obligations	x		x	x	x
20. Accumulated Other Comprehensive Income (Loss)	x		x		
21. New Accounting Guidance Pending Adoption	x	x	x	x	x

1. Summary of Significant Accounting Policies

(All Registrants)

General

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

Business and Consolidation

(PPL)

PPL is a utility holding company that, through its regulated subsidiaries, is primarily engaged in: 1) the distribution of electricity in the U.K.; 2) the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas, primarily in Kentucky; and 3) the transmission, distribution and sale of electricity in Pennsylvania. Headquartered in Allentown, PA, PPL's principal subsidiaries are PPL Global, LKE (including its principal subsidiaries, LG&E and KU) and PPL Electric. PPL's corporate level financing subsidiary is PPL Capital Funding.

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WPD, a subsidiary of PPL Global, through indirect, wholly owned subsidiaries, operates distribution networks providing electricity service in the U.K. WPD serves end-users in South Wales and southwest and central England. Its principal subsidiaries are WPD (South Wales), WPD (South West), WPD (East Midlands) and WPD (West Midlands).

PPL consolidates WPD on a one-month lag. Material events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed.

(PPL and PPL Electric)

PPL Electric is a cost-based rate-regulated utility subsidiary of PPL. PPL Electric's principal business is the transmission and distribution of electricity to serve retail customers in its franchised territory in eastern and central Pennsylvania and the regulated supply of electricity to retail customers in that territory as a PLR.

(PPL, LKE, LG&E and KU)

LKE is a utility holding company with cost-based rate-regulated utility operations through its subsidiaries, LG&E and KU. LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity. LG&E also engages in the distribution and sale of natural gas. LG&E and KU maintain their separate identities and serve customers in Kentucky under their respective names. KU also serves customers in Virginia under the Old Dominion Power name.

(All Registrants)

The financial statements of the Registrants include each company's own accounts as well as the accounts of all entities in which the company has a controlling financial interest. Entities for which a controlling financial interest is not demonstrated through voting interests are evaluated based on accounting guidance for Variable Interest Entities (VIEs). The Registrants consolidate a VIE when they are determined to have a controlling interest in the VIE, and as a result are the primary beneficiary of the entity. The Registrants are not the primary beneficiary in any VIEs. Investments in entities in which a company has the ability to exercise significant influence but does not have a controlling financial interest are accounted for under the equity method. All other investments are carried at cost or fair value. All significant intercompany transactions have been eliminated.

The financial statements of PPL, LKE, LG&E and KU include their share of any undivided interests in jointly owned facilities, as well as their share of the related operating costs of those facilities. See Note 12 for additional information.

Regulation

(PPL)

WPD operates in an incentive-based regulatory structure under distribution licenses granted by Ofgem. Electricity distribution revenues are set by Ofgem for a given time period through price control reviews that are not directly based on cost recovery. The price control formula that governs WPD's allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. As a result, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities.

(All Registrants)

PPL Electric, LG&E and KU are cost-based rate-regulated utilities for which rates are set by regulators to enable PPL Electric, LG&E and KU to recover the costs of providing electric or gas service, as applicable, and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover costs that are expected to be incurred in the future, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the applicable state regulatory commissions. See Note 7 for additional details regarding regulatory matters.

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Accounting Records

The system of accounts for domestic regulated entities is maintained in accordance with the Uniform System of Accounts prescribed by the FERC and adopted by the applicable state regulatory commissions.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of the uncertain future events and (2) the amount of the loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." The Registrants continuously assess potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

Earnings Per Share (PPL)

EPS is computed using the two-class method, which is an earnings allocation method for computing EPS that treats a participating security as having rights to earnings that would otherwise have been available to common shareowners. Share-based payment awards that provide recipients a non-forfeitable right to dividends or dividend equivalents are considered participating securities.

Price Risk Management

(All Registrants)

Interest rate contracts are used to hedge exposure to changes in the fair value of debt instruments and to hedge exposure to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Foreign currency exchange contracts are used to hedge foreign currency exposures, primarily associated with PPL's investments in U.K. subsidiaries. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain contracts may not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved that would facilitate net settlement. Certain derivative contracts may be excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. Contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value. The portion of derivative positions that deliver within a year are included in "Current Assets" and "Current Liabilities," while the portion of derivative positions that deliver beyond a year are recorded in "Other Noncurrent Assets" and "Deferred Credits and Other Noncurrent Liabilities."

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the classification of the hedged items.

PPL and its subsidiaries have elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

(PPL)

Processes exist that allow for subsequent review and validation of the contract information as it relates to interest rate and foreign currency derivatives. The accounting department provides the treasury department with guidelines on appropriate

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Accounting classifications for various contract types and strategies. Examples of accounting guidelines provided to the treasury department staff include, but are not limited to:

- Transactions to lock in an interest rate prior to a debt issuance can be designated as cash flow hedges, to the extent the forecasted debt issuances remain probable of occurring.
- Cross-currency transactions to hedge interest and principal repayments can be designated as cash flow hedges.
- Transactions to hedge fluctuations in the fair value of existing debt can be designated as fair value hedges.
- Transactions to hedge the value of a net investment of foreign operations can be designated as net investment hedges.
- Derivative transactions that do not qualify for cash flow or net investment hedge treatment are marked to fair value through earnings. These transactions generally include foreign currency forwards and options to hedge GBP-denominated earnings translation risk associated with PPL's U.K. subsidiaries that report their financial statements in GBP. As such, these transactions reduce earnings volatility due solely to changes in foreign currency exchange rates.

(All Registrants)

- Derivative transactions may be marked to fair value through regulatory assets/liabilities at PPL Electric, LG&E and KU if approved by the appropriate regulatory body. These transactions generally include the effect of interest rate swaps that are included in customer rates.

(PPL and PPL Electric)

To meet its obligation as a PLR to its customers, PPL Electric has entered into certain contracts that meet the definition of a derivative. However, NPNS has been elected for these contracts.

See Notes 16 and 17 for additional information on derivatives.

Revenue

(PPL)

Operating Revenues

For the years ended December 31, the Statements of Income "Operating Revenues" line item contains revenue from the following:

	2018	2017	2016
Domestic electric and gas revenues (a)	\$ 5,491	\$ 5,351	\$ 5,297
U.K. operating revenues (b)	2,268	2,091	2,207
Domestic - other	26	5	13
Total	<u>\$ 7,785</u>	<u>\$ 7,447</u>	<u>\$ 7,517</u>

(a) Represents revenues from cost-based rate-regulated generation, transmission and/or distribution in Pennsylvania, Kentucky and Virginia, including regulated wholesale revenue.

(b) Primarily represents regulated electricity distribution revenues from the operation of WPD's distribution networks.

Revenue Recognition

(All Registrants)

Operating revenues are primarily recorded based on energy deliveries through the end of the calendar month. Unbilled retail revenues result because customers' bills are rendered throughout the month, rather than bills being rendered at the end of the month. For LKE, LG&E and KU, unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh by the estimated average cents per kWh. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. For PPL Electric, unbilled revenues for a month are calculated by multiplying the actual unbilled kWh by an average rate per customer class.

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PPL Electric's, LG&E's and KU's base rates are determined based on cost of service. Some regulators have also authorized the use of additional alternative revenue programs, which enable PPL Electric, LG&E and KU to adjust rates in the future as a result of past activities or completed events. Revenues from alternative revenue programs are recognized when the specific events permitting future billings have occurred. Revenues from alternative revenue programs are required to be presented separately from revenues from contracts with customers. These amounts are, however, presented as revenues from contracts with customers, with an offsetting adjustment to alternative revenue program revenue, when they are billed to customers in future periods. See Note 3 for additional information.

(PPL)

WPD is currently operating under the eight-year price control period of RIIO-ED1, which commenced for electric distribution companies on April 1, 2015. Ofgem has adopted a price control mechanism that establishes the amount of base demand revenue WPD can earn, subject to certain true-ups, and provides for an increase or reduction in revenues based on incentives or penalties for performance relative to pre-established targets. WPD's allowed revenue primarily includes base demand revenue (adjusted for inflation using RPI), performance incentive revenues/penalties and adjustments for over or under-recovery from prior periods.

As the regulatory model is incentive based rather than a cost recovery model, WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. Therefore, the accounting treatment of adjustments to base demand revenue and/or allowed revenue is evaluated based on revenue recognition accounting guidance.

Unlike prior price control reviews, base demand revenue under RIIO-ED1 is adjusted during the price control period. The most significant of those adjustments are:

- Inflation True-Up - The base demand revenue for the RIIO-ED1 period was set based on 2012/13 prices. Therefore an inflation factor as determined by forecasted RPI, provided by HM Treasury, is applied to base demand revenue. Forecasted RPI is trued up to actuals and affects future base demand revenue two regulatory years later. This revenue change is called the "TRU" adjustment.
- Annual Iteration Process (AIP) - The RIIO-ED1 price control period also includes an AIP. This will allow future base demand revenues agreed with the regulator as part of the price control review, to be updated during the price control period for financial adjustments including tax, pensions, cost of debt, legacy price control adjustments from preceding price control periods and adjustments relating to actual and allowed total expenditure together with the Totex Incentive Mechanism (TIM). Under the TIM, WPD's DNOs are able to retain 70% of any amounts not spent against the RIIO-ED1 plan and bear 70% of any over-spends. The AIP calculates an incremental change to base demand revenue, known as the "MOD" adjustment.

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

In addition to base demand revenue, certain other items are added or subtracted to arrive at allowed revenue. The most significant of these are:

- Incentives - Ofgem has established incentives to provide opportunities for DNO's to enhance overall returns by improving network efficiency, reliability and customer service. These incentives can result in an increase or reduction in revenues based on incentives or penalties for actual performance against pre-established targets based on past performance. The annual incentives and penalties are reflected in customers' rates on a two-year lag from the time they are earned and/or assessed. Incentive revenues and penalties are included in revenues when they are billed to customers.
- Correction Factor - During the current price control period, WPD sets its tariffs to recover allowed revenue. However, in any fiscal period, WPD's revenue could be negatively affected if its tariffs and the volume delivered do not fully recover the revenue allowed for a particular period. Conversely, WPD could also over-recover revenue. Over and under-recoveries are subtracted from or added to allowed revenue in future years when they are billed to customers, known as the "Correction Factor" or "K-factor." Over and under-recovered amounts arising for the periods beginning with the 2014/15 regulatory year and refunded/recovered under RIIO-ED1 are refunded/recovered on a two year lag (previously one year). Therefore the 2015/16 over/under-recovery adjustment occurred in the 2017/18 regulatory year.

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Accounts Receivable

(All Registrants)

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts.

Allowance for Doubtful Accounts

Accounts receivable collectability is evaluated using a combination of factors, including past due status based on contractual terms, trends in write-offs and the age of the receivable. Specific events, such as bankruptcies, are also considered when applicable. Adjustments to the allowance for doubtful accounts are made when necessary based on the results of analysis, the aging of receivables and historical and industry trends.

Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

The changes in the allowance for doubtful accounts were:

	Balance at Beginning of Period	Additions		Deductions (a)	Balance at End of Period
		Charged to Income	Charged to Other Accounts		
PPL					
2018	\$ 51	\$ 41	\$ 3	\$ 39	\$ 56
2017	54	28	(1)	30	51
2016	41	44	—	31	54
PPL Electric					
2018	\$ 24	\$ 29	\$ —	\$ 26	\$ 27
2017	28	18	—	22	24
2016	16	35	—	23	28
KE					
2018	\$ 25	\$ 10	\$ 3	\$ 11	\$ 27
2017	24	8	(1)	6	25
2016	23	8	—	7	24
LG&E					
2018	\$ 1	\$ 4	\$ 1	\$ 5	\$ 1
2017	2	2	(1)	2	1
2016	1	2	1	2	2
KU					
2018	\$ 1	\$ 5	\$ 2	\$ 6	\$ 2
2017	2	4	(1)	4	1
2016	2	4	—	4	2

(a) Primarily related to uncollectible accounts written off.

Cash

(All Registrants)

Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

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PL and PPL Electric

Restricted Cash and Cash Equivalents

Bank deposits and other cash equivalents that are restricted by agreement or that have been clearly designated for a specific purpose are classified as restricted cash and cash equivalents. On the Balance Sheets, the current portion of restricted cash and cash equivalents is included in "Other current assets," while the noncurrent portion is included in "Other noncurrent assets."

(All Registrants)

Fair Value Measurements

The Registrants value certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities in defined benefit plans, and cash and cash equivalents. PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

The Registrants classify fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.
- **Level 3** - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, the Registrants' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

Investments

(All Registrants)

Generally, the original maturity date of an investment and management's intent and ability to sell an investment prior to its original maturity determine the classification of investments as either short-term or long-term. Investments that would otherwise be classified as short-term, but are restricted as to withdrawal or use for other than current operations or are clearly designated for expenditure in the acquisition or construction of noncurrent assets or for the liquidation of long-term debts, are classified as long-term.

Short-term Investments

Short-term investments generally include certain deposits as well as securities that are considered highly liquid or provide for periodic reset of interest rates. Investments with original maturities greater than three months and less than a year, as well as investments with original maturities of greater than a year that management has the ability and intent to sell within a year, are included in "Other current assets" on the Balance Sheets.

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Investments in Debt Securities

Investments in debt securities are classified as held-to-maturity and measured at amortized cost when there is an intent and ability to hold the securities to maturity. Debt securities held principally to capitalize on fluctuations in their value with the intention of selling them in the near-term are classified as trading. All other investments in debt securities are classified as available-for-sale. Both trading and available-for-sale securities are carried at fair value. The specific identification method is used to calculate realized gains and losses on debt securities. Unrealized gains and losses on available-for-sale debt securities are reported in other comprehensive income until realized.

The criteria for determining whether a decline in fair value of a debt security is other than temporary and whether the other-than-temporary impairment is recognized in earnings or reported in OCI require that when a debt security is in an unrealized loss position and:

- there is an intent or a requirement to sell the security before recovery, the other-than-temporary impairment is recognized currently in earnings; or
- there is no intent or requirement to sell the security before recovery, the portion of the other-than-temporary impairment that is considered a credit loss is recognized currently in earnings and the remainder of the other-than-temporary impairment is reported in OCI, net of tax; or
- there is no intent or requirement to sell the security before recovery and there is no credit loss, the unrealized loss is reported in OCI, net of tax.

(PPL, LKE, LG&E and KU)

Investments in Equity Securities

LG&E and KU each have an investment in OVEC, which is recorded at cost. The investment is recorded in "Other noncurrent assets" on the PPL, LKE, LG&E and KU Balance Sheets. LG&E and KU and ten other electric utilities are equity owners of OVEC. OVEC's power is currently supplied to LG&E and KU and 11 other companies affiliated with the various owners. LG&E and KU own 5.63% and 2.5% of OVEC's common stock. Pursuant to a power purchase agreement, LG&E and KU are contractually entitled to their ownership percentage of OVEC's output, which is approximately 120 MW for LG&E and approximately 53 MW for KU.

LG&E's and KU's combined investment in OVEC is not significant. The direct exposure to loss as a result of LG&E's and KU's involvement with OVEC is generally limited to the value of their investments; however, LG&E and KU are responsible for a pro-rata share of certain OVEC obligations, pursuant to their power purchase contract with OVEC. As part of PPL's acquisition of LKE, the value of the power purchase contract was recorded as an intangible asset with an offsetting regulatory liability, both of which are being amortized using the units-of-production method until March 2026. For information relating to the bankruptcy filing of a co-sponsor of OVEC and potential impact, see footnote (f) under "Guarantees and Other Assurances" in Note 13. See also Notes 7, 13 and 18 for additional discussion of the power purchase agreement.

Long-Lived and Intangible Assets

Property, Plant and Equipment

(All Registrants)

PP&E is recorded at original cost, unless impaired. PP&E acquired in business combinations is recorded at fair value at the time of acquisition. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost for constructed assets includes material, labor, contractor costs, certain overheads and financing costs, where applicable. The cost of repairs and minor replacements are charged to expense as incurred. The Registrants record costs associated with planned major maintenance projects in the period in which the costs are incurred. No costs associated with planned major maintenance projects are accrued to PP&E in advance of the period in which the work is performed. LG&E and KU accrue costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred. For LKE, LG&E and

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J, all ARO depreciation expenses are reclassified to a regulatory asset. See "Asset Retirement Obligations" below and Note 7 for additional information. L Electric records net costs of removal when incurred as a regulatory asset. The regulatory asset is subsequently amortized through depreciation over a five-year period, which is recoverable in customer rates in accordance with regulatory practices.

AFUDC is capitalized at PPL Electric as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income. LG&E and KU generally do not record AFUDC, except for certain instances in KU's FERC approved rates charged to its municipal customers, as a return is provided on construction work in progress.

(PPL)

PPL capitalizes interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC for PPL, was \$15 million in 2018 and \$11 million in 2017 and 2016.

Depreciation

(All Registrants)

Depreciation is recorded over the estimated useful lives of property using various methods including the straight-line, composite and group methods. When a component of PP&E that was depreciated under the composite or group method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite or group method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators.

Following are the weighted-average annual rates of depreciation, for regulated utility plant, for the years ended December 31:

	2018	2017	2016
PPL	2.77%	2.65%	2.73%
PPL Electric	3.01%	2.86%	2.63%
LKE	3.69%	3.64%	3.69%
LG&E	3.63%	3.63%	3.58%
J	3.74%	3.66%	3.77%

(All Registrants)

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, PPL and its subsidiaries consider:

- the expected use of the asset;
- the expected useful life of other assets to which the useful life of the intangible asset may relate;
- legal, regulatory, or contractual provisions that may limit the useful life;
- the company's historical experience as evidence of its ability to support renewal or extension;
- the effects of obsolescence, demand, competition, and other economic factors; and,
- the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

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Asset Impairment (Excluding Investments)

The Registrants review long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell.

PPL, LKE, LG&E and KU review goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed. PPL's, LKE's, LG&E's and KU's reporting units are primarily at the operating segment level.

PPL, LKE, LG&E and KU may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a two-step quantitative test. If the qualitative evaluation (referred to as "step zero") is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the two-step quantitative impairment test is not necessary. However, the quantitative impairment test is required if management concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the step zero assessment.

If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, the implied fair value of goodwill must be calculated in the same manner as goodwill in a business combination. The fair value of a reporting unit is allocated to all assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the implied fair value of goodwill is less than the carrying amount, goodwill is written down to its implied fair value.

PPL, LKE, LG&E and KU elected to bypass the qualitative step zero evaluation of goodwill and quantitatively tested the goodwill of all reporting units for impairment as of the fourth quarter of 2018. No impairment was recognized.

(PPL, LKE, LG&E and KU)

Asset Retirement Obligations

PPL and its subsidiaries record liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income to reflect changes in the obligation due to the passage of time. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset. See Note 7 and Note 19 for additional information on AROs.

Compensation and Benefits

Defined Benefits (All Registrants)

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to AOCI or, for LG&E, KU and PPL Electric, to regulatory assets or liabilities. Consequently, the funded status of all defined benefit plans is fully recognized on the Balance Sheets.

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The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

PPL uses an accelerated amortization method for the recognition of gains and losses for its defined benefit pension plans. Under the accelerated method, actuarial gains and losses in excess of 30% of the plan's projected benefit obligation are amortized on a straight-line basis over one-half of the expected average remaining service of active plan participants. Actuarial gains and losses in excess of 10% of the greater of the plan's projected benefit obligation or the market-related value of plan assets and less than 30% of the plan's projected benefit obligation are amortized on a straight-line basis over the expected average remaining service period of active plan participants.

In selecting the discount rates for U.S. defined benefit plans, the plan sponsors start with a cash flow analysis of the expected benefit payment stream for their plans. The plan-specific cash flows are matched against the coupons and expected maturity values of individually selected bonds. This bond matching process begins with the full universe of Aa-rated non-callable (or callable with make-whole provisions) bonds, serving as the base from which those with the lowest and highest yields are eliminated to develop an appropriate subset of bonds. Individual bonds are then selected based on the timing of each plan's cash flows and parameters are established as to the percentage of each individual bond issue that could be hypothetically purchased and the surplus reinvestment rates to be assumed.

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

See Note 7 for a discussion of the regulatory treatment of defined benefit costs and Note 11 for a discussion of defined benefits.

Stock-Based Compensation (PPL, PPL Electric and LKE)

PPL has several stock-based compensation plans for purposes of granting stock options, restricted stock, restricted stock units and performance units to certain employees as well as stock units and restricted stock units to directors. PPL grants most stock-based awards in the first quarter of each year. PPL and its subsidiaries recognize compensation expense for stock-based awards based on the fair value method. Forfeitures of awards are recognized when they occur. See Note 10 for a discussion of stock-based compensation. All awards are recorded as equity or a liability on the Balance Sheets. Stock-based compensation is primarily included in "Other operation and maintenance" on the Statements of Income. Stock-based compensation expense for PPL Electric and LKE includes an allocation of PPL Services' expense.

Taxes

Income Taxes

(All Registrants)

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return.

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 was eligible to claim in its 2017 federal income tax return;

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d (3) the related impacts on PPL's 2017 consolidated federal net operating loss to be carried forward to future periods. In addition, the Registrants recorded the tax impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on the changes to deferred tax assets and liabilities resulting from the completed provisional amounts. The completed provisional amounts related to the tax rate reduction had an insignificant impact on the net regulatory liabilities of PPL's U.S. regulated operations. In the fourth quarter of 2018, PPL completed its analysis of the deductibility of executive compensation awarded as of November 2, 2017 and concluded that no material change to the provisional amounts is required. 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 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 December 31, 2018 with respect to all provisional amounts.

In 2018, the IRS issued proposed regulations for certain provisions of the TCJA, including interest deductibility, Base Erosion Anti-Avoidance Tax (BEAT), and Global Intangible Low-Taxed Income (GILTI). PPL has determined that the proposed regulations related to BEAT and GILTI do not materially change PPL's current interpretation of the statutory impact of these rules on the company. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be 2019. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant.

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

Additionally, significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Registrants use a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Registrants in future periods.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

The Registrants record valuation allowances to reduce deferred income tax assets to the amounts that are more likely than not to be realized. The Registrants consider the reversal of temporary differences, future taxable income and ongoing prudent and feasible tax planning strategies in initially recording and subsequently reevaluating the need for valuation allowances. If the Registrants determine that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if the Registrants determine that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made.

The Registrants defer investment tax credits when the credits are utilized and amortize the deferred amounts over the average lives of the related assets.

The Registrants recognize tax-related interest and penalties in "Income Taxes" on their Statements of Income.

The Registrants use the portfolio approach method of accounting for deferred taxes related to pre-tax other comprehensive income or loss transactions. The portfolio approach involves a strict period-by-period cumulative incremental allocation of income taxes to the change in income and losses reflected in OCI. Under this approach, the net cumulative tax effect is ignored.

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The net change in pre-tax income and losses recorded in AOCI under this approach would be eliminated only on the date the entire balance is sold or otherwise disposed of.

See Note 6 for additional discussion regarding income taxes, including the impact of the TCJA and management's conclusion that the undistributed earnings of WPD are considered indefinitely reinvested.

The provision for PPL's, PPL Electric's, LKE's, LG&E's and KU's deferred income taxes for regulatory assets and liabilities is based upon the ratemaking principles reflected in rates established by the regulators. The difference in the provision for deferred income taxes for regulatory assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheets in noncurrent "Regulatory assets" or "Regulatory liabilities."

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

The income tax provision for PPL Electric, LG&E and KU is calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if PPL Electric, LG&E, KU and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes.

At December 31, the following intercompany tax receivables (payables) were recorded:

	2018	2017
PPL Electric	\$ 19	\$ 61
LKE	(16)	(23)
LG&E	—	—
KU	(5)	—

Taxes, Other Than Income *(All Registrants)*

The Registrants present sales taxes in "Other current liabilities" and PPL presents value-added taxes in "Taxes" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 6 for details on taxes included in "Taxes, other than income" on the Statements of Income.

Other

(All Registrants)

Leases

The Registrants evaluate whether arrangements entered into contain leases for accounting purposes. See Note 9 for additional information.

Fuel, Materials and Supplies

Fuel, natural gas stored underground and materials and supplies are valued using the average cost method. Fuel costs for electric generation are charged to expense as used. For LG&E, natural gas supply costs are charged to expense as delivered to the distribution system. See Note 7 for further discussion of the fuel adjustment clause and gas supply clause.

(PPL, LKE, LG&E and KU)

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31:

	PPL		LKE		LG&E		KU	
	2018	2017	2018	2017	2018	2017	2018	2017
Fuel	\$ 98	\$ 107	\$ 98	\$ 107	\$ 42	\$ 45	\$ 56	\$ 62
Natural gas stored underground	41	43	41	43	41	43	—	—
Materials and supplies	164	170	109	104	44	43	65	61
Total	<u>\$ 303</u>	<u>\$ 320</u>	<u>\$ 248</u>	<u>\$ 254</u>	<u>\$ 127</u>	<u>\$ 131</u>	<u>\$ 121</u>	<u>\$ 123</u>

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Guarantees (All Registrants)

Generally, the initial measurement of a guarantee liability is the fair value of the guarantee at its inception. However, there are certain guarantees excluded from the scope of accounting guidance and other guarantees that are not subject to the initial recognition and measurement provisions of accounting guidance that only require disclosure. See Note 13 for further discussion of recorded and unrecorded guarantees.

Treasury Stock (PPL)

PPL restores all shares of common stock acquired to authorized but unissued shares of common stock upon acquisition.

Foreign Currency Translation and Transactions (PPL)

WPD's functional currency is the GBP, which is the local currency in the U.K. As such, assets and liabilities are translated to U.S. dollars at the exchange rates on the date of consolidation and related revenues and expenses are generally translated at average exchange rates prevailing during the period included in PPL's results of operations. Adjustments resulting from foreign currency translation are recorded in AOCI.

Gains or losses relating to foreign currency transactions are recognized in "Other Income (Expense) - net" on the Statements of Income. See Note 15 for additional information.

New Accounting Guidance Adopted (All Registrants)

Accounting for 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 3 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 twelve months ended December 31, 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 \$22 million (\$17 million after-tax or \$0.02 per share) for the twelve months ended December 31, 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 and 2016 on the Statements of Income as a result of the adoption.

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	2018	2017	2016
PPL	\$ 257	\$ 167	\$ 112
PPL Electric	5	1	3
LKE	4	(5)	(6)
LG&E	(2)	(5)	(5)
KU	3	(1)	(2)

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.

Reconciliation of Cash, Cash Equivalents and Restricted Cash

The following provides a reconciliation of Cash, Cash Equivalents and Restricted Cash reported within the Balance Sheets that sum to the total of the same amounts shown on the Statements of Cash Flows:

	PPL		PPL Electric	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 621	\$ 485	\$ 267	\$ 49
Restricted cash - current	3	3	2	2
Restricted cash - noncurrent (a)	19	23	—	—
Total Cash, Cash Equivalents and Restricted Cash	\$ 643	\$ 511	\$ 269	\$ 51

(a) Primarily consists of funds received by WPD, which are to be spent on approved initiatives to support a low carbon environment.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (PPL and LKE)

Effective October 1, 2018, prospectively adopted 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.

The adoption of this guidance resulted in PPL and LKE reclassifying \$51 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.

2. Segment and Related Information

(PPL)

PPL is organized into three segments: U.K. Regulated, Kentucky Regulated and Pennsylvania Regulated. PPL's segments are segmented by geographic location.

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs, and certain acquisition-related financing costs.

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The Kentucky Regulated segment consists primarily of LKE's regulated electricity generation, transmission and distribution operations of LG&E and KU, as well as LG&E's regulated distribution and sale of natural gas. In addition, certain acquisition-related financing costs are allocated to the Kentucky Regulated segment.

The Pennsylvania Regulated segment includes the regulated electricity transmission and distribution operations of PPL Electric. In addition, certain costs are allocated to the Pennsylvania Regulated segment.

"Corporate and Other" primarily includes financing costs incurred at the corporate level that have not been allocated or assigned to the segments, certain other unallocated costs, as well as the financial results of Safari Energy, which is presented to reconcile segment information to PPL's consolidated results.

Income Statement data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

	2018	2017	2016
Operating Revenues from external customers (a)			
U.K. Regulated	\$ 2,268	\$ 2,091	\$ 2,207
Kentucky Regulated	3,214	3,156	3,141
Pennsylvania Regulated	2,277	2,195	2,156
Corporate and Other	26	5	13
Total	\$ 7,785	\$ 7,447	\$ 7,517
Depreciation			
U.K. Regulated	\$ 247	\$ 230	\$ 233
Kentucky Regulated	475	439	404
Pennsylvania Regulated	352	309	253
Corporate and Other	20	30	36
Total	\$ 1,094	\$ 1,008	\$ 926
Amortization (b)			
U.K. Regulated	\$ 34	\$ 34	\$ 16
Kentucky Regulated	18	24	29
Pennsylvania Regulated	22	33	32
Corporate and Other	4	6	3
Total	\$ 78	\$ 97	\$ 80
Unrealized (gains) losses on derivatives and other hedging activities (c)			
U.K. Regulated	\$ (190)	\$ 166	\$ 13
Kentucky Regulated	6	6	6
Corporate and Other	(2)	6	—
Total	\$ (186)	\$ 178	\$ 19
Interest Expense			
U.K. Regulated	\$ 413	\$ 397	\$ 402
Kentucky Regulated	274	261	260
Pennsylvania Regulated	159	142	129
Corporate and Other	117	101	97
Total	\$ 963	\$ 901	\$ 888
Income Before Income Taxes			
U.K. Regulated	\$ 1,339	\$ 804	\$ 1,479
Kentucky Regulated	531	645	640
Pennsylvania Regulated	567	575	550
Corporate and Other	(152)	(112)	(119)
Total	\$ 2,285	\$ 1,912	\$ 2,550

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	2018	2017	2016
Income Taxes (d)			
U.K. Regulated	\$ 225	\$ 152	\$ 233
Kentucky Regulated	120	359	242
Pennsylvania Regulated	136	216	212
Corporate and Other	(23)	57	(39)
Total	\$ 458	\$ 784	\$ 648
Deferred income taxes and investment tax credits (e)			
U.K. Regulated	\$ 118	\$ 66	\$ 31
Kentucky Regulated	94	294	291
Pennsylvania Regulated	125	257	221
Corporate and Other	18	90	17
Total	\$ 355	\$ 707	\$ 560
Net Income			
U.K. Regulated	\$ 1,114	\$ 652	\$ 1,246
Kentucky Regulated	411	286	398
Pennsylvania Regulated	431	359	338
Corporate and Other	(129)	(169)	(80)
Total	\$ 1,827	\$ 1,128	\$ 1,902

(a) See Note 1 for additional information on Operating Revenues.

(b) Represents non-cash expense items that include amortization of regulatory assets, debt discounts and premiums and debt issuance costs.

(c) Includes unrealized gains and losses from economic activity. See Note 17 for additional information.

(d) Represents both current and deferred income taxes, including investment tax credits. See Note 6 for additional information on the impact of the TCJA in 2018 and 2017.

(e) Represents a non-cash expense item that is also included in "Income Taxes."

Cash Flow data for the segments and reconciliation to PPL's consolidated results for the years ended December 31 are as follows:

	2018	2017	2016
Expenditures for long-lived assets			
U.K. Regulated	\$ 954	\$ 1,015	\$ 1,031
Kentucky Regulated	1,117	892	791
Pennsylvania Regulated	1,196	1,254	1,134
Corporate and Other	1	10	1
Total	\$ 3,268	\$ 3,171	\$ 2,957

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

	As of December 31,	
	2018	2017
Total Assets		
U.K. Regulated (a)	\$ 16,700	\$ 16,813
Kentucky Regulated	15,078	14,468
Pennsylvania Regulated	11,257	10,082
Corporate and Other (b)	361	116
Total	\$ 43,396	\$ 41,479

(a) Includes \$12.4 billion and \$12.5 billion of net PP&E as of December 31, 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, the elimination of inter-segment transactions as well as the assets of Safari Energy.

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Geographic data for the years ended December 31 are as follows:

	2018	2017	2016
Revenues from external customers			
U.K.	\$ 2,268	\$ 2,091	\$ 2,207
U.S.	5,517	5,356	5,310
Total	\$ 7,785	\$ 7,447	\$ 7,517
As of December 31,			
	2018	2017	
Long-Lived Assets			
U.K.	\$ 12,791	\$ 12,851	
U.S.	22,384	20,936	
Total	\$ 35,175	\$ 33,787	

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

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

3. Revenue from Contracts with Customers

(All Registrants)

The following is a description of the principal activities from which the Registrants and PPL's segments generate their revenues.

(PPL)

U.K. Regulated Segment Revenue

The U.K. Regulated Segment generates revenues from contracts with customers primarily from WPD's DUoS operations.

DUoS revenues result from WPD charging licensed third-party energy suppliers for their use of WPD's distribution systems to deliver energy to their customers. WPD satisfies its performance obligation and DUoS revenue is recognized over-time as electricity is delivered. The amount of revenue recognized is based on actual and forecasted volumes of electricity delivered during the period multiplied by a per-unit energy tariff, plus fixed charges. This method of recognition fairly presents WPD's transfer of electric service to the customer as the calculation is based on volumes, and the tariff rate is set by WPD using a methodology prescribed by Ofgem. Customers are billed monthly and outstanding amounts are typically due within 14 days of the invoice date.

DUoS customers are "at will" customers of WPD with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with WPD's DUoS contracts.

(PPL and PPL Electric)

Pennsylvania Regulated Segment Revenue

The Pennsylvania Regulated Segment generates substantially all of its revenues from contracts with customers from PPL Electric's tariff-based distribution and transmission of electricity.

Distribution Revenue

PPL Electric provides distribution services to residential, commercial, industrial, municipal and governmental end users of energy. PPL Electric satisfies its performance obligation to its distribution customers and revenue is recognized over-time as electricity is delivered and simultaneously consumed by the customer. The amount of revenue recognized is the volume of electricity delivered during the period multiplied by a per-unit of energy tariff, plus a monthly fixed charge. This method of recognition fairly presents PPL Electric's transfer of electric service to the customer as the calculation is based on actual

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olumes, 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.

PPL Electric's agreement to provide transmission services contains no minimum purchase commitment. The performance obligation is limited to the service requested and received to date. Accordingly, PPL Electric has no unsatisfied performance obligations.

(PPL, LKE, LG&E and KU)

Kentucky Regulated Segment Revenue

The Kentucky Regulated Segment generates substantially all of its revenues from contracts with customers from LG&E's and KU's regulated tariff-based sales of electricity and LG&E's regulated tariff-based sales of natural gas.

LG&E and KU are engaged in the generation, transmission, distribution and sale of electricity in Kentucky and, in KU's case, Virginia. LG&E also engages in the distribution and sale of natural gas in Kentucky. Revenue from these activities is generated from tariffs approved by applicable regulatory authorities including the FERC, KPSC and VSCC. LG&E and KU satisfy their performance obligations upon LG&E's and KU's delivery of electricity and LG&E's delivery of natural gas to customers. This revenue is recognized over-time as the customer simultaneously receives and consumes the benefits provided by LG&E and KU. The amount of revenue recognized is the billed volume of electricity or natural gas delivered multiplied by a tariff rate per-unit of energy, plus any applicable fixed charges or additional regulatory mechanisms. Customers are billed monthly and outstanding amounts are typically due within 22 days of the date of the bill. Additionally, unbilled revenues are recognized as a result of customers' bills rendered throughout the month, rather than bills being rendered at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh or Mcf delivered but not yet billed by the estimated average cents per kWh or Mcf. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. This method of recognition fairly presents LG&E's and KU's transfer of electricity and LG&E's transfer of natural gas to the customer as the amount recognized is based on actual and estimated volumes delivered and the tariff rate per-unit of energy and any applicable fixed charges or regulatory mechanisms as set by the respective regulatory body.

LG&E's and KU's customers generally have no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with these customers.

(All Registrants)

The following table reconciles "Operating Revenues" included in each Registrant's Statement of Income with revenues generated from contracts with customers for the year ended December 31:

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	2018				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 7,785	\$ 2,277	\$ 3,214	\$ 1,496	\$ 1,760
Revenues derived from:					
Alternative revenue programs (b)	32	(6)	38	12	26
Other (c)	(38)	(12)	(17)	(5)	(12)
Revenues from Contracts with Customers	\$ 7,779	\$ 2,259	\$ 3,235	\$ 1,503	\$ 1,774

- (a) PPL includes \$2.3 billion for the year ended December 31, 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 2 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 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, PPL's segments are segmented by geographic location. Revenues from external customers for each segment/geographic location are reconciled to revenues from contracts with customers in the table above. For PPL Electric, revenues from contracts with customers are further disaggregated by distribution and transmission, which were \$1.9 billion and \$405 million for the year ended December 31, 2018.

The following table shows revenues from contracts with customers disaggregated by customer class for the year ended December 31:

	2018				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 2,127	\$ —	\$ —	\$ —	\$ —
Residential	2,704	1,379	1,325	666	659
Commercial	1,233	368	865	455	410
Industrial	624	54	570	180	390
Other (b)	489	53	278	129	149
Wholesale - municipal	118	—	118	—	118
Wholesale - other (c)	79	—	79	73	48
Transmission	405	405	—	—	—
Revenues from Contracts with Customers	\$ 7,779	\$ 2,259	\$ 3,235	\$ 1,503	\$ 1,774

- (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. For PPL Electric, the "Accounts receivable - Customer" balance includes purchased receivables from alternative electricity suppliers. See Note 7 for additional information regarding the purchase of receivables program.

The following table shows the accounts receivable balances from contracts with customers that were impaired for the year ended December 31:

	2018
PPL	\$ 34
PPL Electric	24
LKE	9
LG&E	4
KU	5

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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 December 31, 2018	42	23	9	5	4

The following table shows the revenue recognized in 2018 that was included in the contract liability balance at the beginning of the year.

	2018
PPL	\$ 21
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 December 31, 2018, PPL had \$49 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately \$37 million within the next 12 months.

4. Preferred Securities

(PPL)

PPL is authorized to issue up to 10 million shares of preferred stock. No PPL preferred stock was issued or outstanding in 2018, 2017 or 2016.

(PPL Electric)

PPL Electric is authorized to issue up to 20,629,936 shares of preferred stock. No PPL Electric preferred stock was issued or outstanding in 2018, 2017 or 2016.

(LG&E)

LG&E is authorized to issue up to 1,720,000 shares of preferred stock at a \$25 par value and 6,750,000 shares of preferred stock without par value. LG&E had no preferred stock issued or outstanding in 2018, 2017 or 2016.

(KU)

KU is authorized to issue up to 5,300,000 shares of preferred stock and 2,000,000 shares of preference stock without par value. KU had no preferred or preference stock issued or outstanding in 2018, 2017 or 2016.

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

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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 December 31, used in the EPS calculation are:

	2018	2017	2016
Income (Numerator)			
Net income	\$ 1,827	\$ 1,128	\$ 1,902
Less amounts allocated to participating securities	2	2	6
Net income available to PPL common shareowners - Basic and Diluted	<u>\$ 1,825</u>	<u>\$ 1,126</u>	<u>\$ 1,896</u>
Shares of Common Stock (Denominator)			
Weighted-average shares - Basic EPS	704,439	685,240	677,592
Add incremental non-participating securities:			
Share-based payment awards (a)	445	2,094	2,854
Forward sale agreements	3,735	—	—
Weighted-average shares - Diluted EPS	<u>708,619</u>	<u>687,334</u>	<u>680,446</u>
Basic EPS			
Net Income available to PPL common shareowners	<u>\$ 2.59</u>	<u>\$ 1.64</u>	<u>\$ 2.80</u>
Diluted EPS			
Net Income available to PPL common shareowners	<u>\$ 2.58</u>	<u>\$ 1.64</u>	<u>\$ 2.79</u>

(a) The Treasury Stock Method was applied to non-participating share-based payment awards.

For the year ended December 31, PPL issued common stock related to stock-based compensation plans and DRIP as follows (in thousands):

	2018
Stock-based compensation plans (a)	720
DRIP	1,974

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

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

For the years ended December 31, the following shares (in thousands) were excluded from the computations of diluted EPS because the effect would have been antidilutive:

	2018	2017	2016
Stock options	172	696	696
Performance units	—	—	176
Restricted stock units	11	—	—

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Income and Other Taxes

(All Registrants)

Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, President Trump signed into law the TCJA. Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017. The TCJA included significant changes to the taxation of corporations, including provisions specifically applicable to regulated public utilities. The more significant changes that impact the Registrants were:

- The reduction in the U.S. federal corporate income tax rate from a top marginal rate of 35% to a flat rate of 21%, effective January 1, 2018;
- The exclusion from U.S. federal taxable income of dividends from foreign subsidiaries and the associated "transition tax;"
- Limitations on the tax deductibility of interest expense, with an exception to these limitations for regulated public utilities;
- Full current year expensing of capital expenditures with an exception for regulated public utilities that qualify for the exception to the interest expense limitation; and
- The continuation of certain rate normalization requirements for accelerated depreciation benefits. For non-regulated businesses, the TCJA generally provides for full expensing of property acquired after September 27, 2017.

Under GAAP, the tax effect of changes in tax laws must be recognized in the period in which the law is enacted, or December 2017 for the TCJA. The changes enacted by the TCJA were recorded as an adjustment to the Registrants' deferred tax provisions, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	\$ 321	\$ (13)	\$ 112	\$ —	\$ —

The components of these adjustments are discussed below:

Reduction of U.S. Federal Corporate Income Tax Rate

GAAP requires deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, at the date of enactment, the Registrants' deferred taxes were remeasured based upon the U.S. federal corporate income tax rate of 21%. For PPL's regulated entities, the changes in deferred taxes were, in large part, recorded as an offset to either a regulatory asset or regulatory liability and will be reflected in future rates charged to customers. The tax rate reduction impacts on non-regulated deferred tax assets and liabilities were recorded as an adjustment to the Registrants' deferred tax provisions, and have been reflected in "Income Taxes" on the Statement of Income for the year ended December 31, 2017 as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Income tax expense (benefit)	\$ 220	\$ (13)	\$ 112	\$ —	\$ —

As indicated in Note 1 - "Summary of Significant Accounting Policies - Income Taxes", PPL's U.S. regulated operations' accounting for income taxes are impacted by rate regulation. Therefore, reductions in accumulated deferred income tax balances due to the reduction in the U.S. federal corporate income tax rate to 21% under the provisions of the TCJA will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers over a period of time. The TCJA includes provisions that stipulate how these excess deferred taxes are to be passed back to customers for certain accelerated tax depreciation benefits. Refunds of other deferred taxes either have been or will be determined by the Registrants' regulators. The Balance Sheets at December 31, 2017 reflect the increase to the Registrants' net regulatory liabilities as a result of the TCJA as follows:

	PPL	PPL Electric	LKE	LG&E	KU
Net Increase in Regulatory Liabilities	\$ 2,185	\$ 1,019	\$ 1,166	\$ 532	\$ 634

Transition Tax

The TCJA included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings

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2017. These earnings were treated as a taxable deemed dividend to PPL of approximately \$462 million for purposes of the 2017 tax provision. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, the foreign tax credits associated with the deemed dividend were recorded as a deferred tax asset. However, it is expected that under the TCJA, the current and prior year foreign tax credit carryforwards will not be fully realizable.

As a result, the net deferred income tax expense impact of the deemed repatriation was \$101 million and was recorded in "Income Taxes" on the PPL Statement of Income for the year ended December 31, 2017 and "Deferred tax liabilities" on the PPL Balance Sheet at December 31, 2017.

2018 Impacts of TCJA

The Registrants recognized certain provisional amounts relating to the impact of the enactment of the TCJA in their December 31, 2017 financial statements, in accordance with SEC guidance. Included in those provisional amounts were estimates of: tax depreciation, deductible executive compensation, accumulated foreign earnings, foreign tax credits, and deemed dividends from foreign subsidiaries, all of which were based on the interpretation and application of various provisions of the TCJA.

In the third quarter of 2018, PPL filed its consolidated federal income tax return, which was prepared using guidance issued by the U.S. Treasury Department and the IRS since the filing of each Registrant's 2017 Form 10-K. Accordingly, the Registrants 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 was eligible to claim in its 2017 federal income tax return; and (3) the related impacts on PPL's 2017 consolidated federal net operating loss to be carried forward to future periods. In addition, the Registrants recorded the tax impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on the changes to deferred tax assets and liabilities resulting from the completed provisional amounts. The completed provisional amounts related to the tax rate reduction had an insignificant impact on the net regulatory liabilities of PPL's U.S. regulated operations. In the fourth quarter of 2018, PPL completed its analysis of the deductibility of executive compensation awarded as of November 2, 2017 and concluded that no material change to the provisional amounts is required. The final amounts reported in PPL's 2017 federal income tax return, provisional amounts for the year ended December 31, 2017, the related measurement period adjustments, and the resulting tax impact for the year ended December 31, 2018 are as follows.

	Taxable Income (Loss) (a)		
	Adjustments per 2017 Tax Return	Adjustments per 2017 Tax Provision	2018 Adjustments
PPL			
Deemed Dividend	\$ 397	\$ 462	\$ (65)
Bonus Depreciation (b)	(67)	—	(67)
Consolidated Federal Net Operating Loss due to the TCJA (c)	(330)	(462)	132
Total	\$ —	\$ —	\$ —
PPL Electric			
Bonus Depreciation (b)	\$ (39)	\$ —	\$ (39)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(68)	(105)	37
Total	\$ (107)	\$ (105)	\$ (2)
LKE			
Bonus Depreciation (b)	\$ (28)	\$ —	\$ (28)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	(32)	(45)	13
Total	\$ (60)	\$ (45)	\$ (15)
LG&E			
Bonus Depreciation (b)	\$ (17)	\$ —	\$ (17)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	17	—	17
Total	\$ —	\$ —	\$ —
KU			
Bonus Depreciation (b)	\$ (11)	\$ —	\$ (11)
Consolidated Federal Net Operating Loss reallocated due to the TCJA (c)	11	—	11
Total	\$ —	\$ —	\$ —

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- The above table reflects, for each item, the amount subject to change as a result of the TCJA and does not reflect the total amount of each item included in the return and the provision.
- (b) The TCJA increased the bonus depreciation percentage from 50% to 100% for qualified property acquired and placed in service after September 27, 2017 and before January 1, 2018. Increases in tax depreciation reduce the Registrants' taxes payable and increase net deferred tax liabilities with no impact to "Income Taxes" on the Statements of Income.
 - (c) An increase in the consolidated federal net operating loss reduces net deferred tax liabilities with the opposite effect if there is a decrease in the consolidated federal net operating loss. These increases or decreases have no impact to "Income Taxes" on the Statements of Income.

	Income Tax Expense (Benefit)		
	Adjustments per 2017 Tax Return	Adjustments per 2017 Tax Provision	2018 Adjustments
PPL			
Deemed Dividend	\$ 139	\$ 161	\$ (22)
Foreign Tax Credits	(157)	(205)	48
Valuation of Foreign Tax Credit Carryforward	110	145	(35)
Reduction in U.S. federal income tax rate	229	220	9
Total	<u>\$ 321</u>	<u>\$ 321</u>	<u>\$ —</u>

PPL Electric			
Reduction in U.S. federal income tax rate	\$ (13)	\$ (13)	\$ —

LKE			
Reduction in U.S. federal income tax rate	\$ 110	\$ 112	\$ (2)

The Registrants' accounting related to the effects of the TCJA on financial results for the period ended December 31, 2017 is complete as of December 31, 2018 with respect to all provisional amounts.

In 2018, the IRS issued proposed regulations for certain provisions of the TCJA, including interest deductibility, Base Erosion Anti-Avoidance Tax (BEAT), and Global Intangible Low-Taxed Income (GILTI). PPL has determined that the proposed regulations related to BEAT and GILTI do not materially change PPL's current interpretation of the statutory impact of these rules on the company. Proposed regulations relating to the limitation on the deductibility of interest expense were issued in November 2018 and such regulations provide detailed rules implementing the broader statutory provisions. These proposed regulations should not apply to the Registrants until the year in which the regulations are issued in final form, which is expected to be 2019. It is uncertain what form the final regulations will take and, therefore, the Registrants cannot predict what impact the final regulations will have on the tax deductibility of interest expense. However, if the proposed regulations were issued as final in their current form, the Registrants could have a limitation on a portion of their interest expense deduction for tax purposes and such limitation could be significant.

(PPL)

"Income Before Income Taxes" included the following:

	2018	2017	2016
Domestic income	\$ 1,127	\$ 874	\$ 1,463
Foreign income	1,158	1,038	1,087
Total	<u>\$ 2,285</u>	<u>\$ 1,912</u>	<u>\$ 2,550</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss and tax credit carryforwards. The provision for PPL's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 7 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income for the U.S. and the U.K.

Significant components of PPL's deferred income tax assets and liabilities were as follows:

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	2018	2017
Deferred Tax Assets		
Deferred investment tax credits	\$ 31	\$ 33
Regulatory liabilities	87	68
Income taxes due to customer	479	499
Accrued pension and postretirement costs	277	232
Federal loss carryforwards	325	356
State loss carryforwards	419	409
Federal and state tax credit carryforwards	392	455
Foreign capital loss carryforwards	313	329
Foreign loss carryforwards	1	2
Foreign - regulatory obligations	—	2
Foreign - other	9	7
Contributions in aid of construction	139	134
Domestic - other	81	102
Unrealized losses on qualifying derivatives	7	10
Valuation allowances	(808)	(838)
Total deferred tax assets	1,752	1,800
Deferred Tax Liabilities		
Domestic plant - net	3,359	3,168
Regulatory assets	314	288
Reacquired debt costs	12	15
Foreign plant - net	724	726
Foreign - pensions	83	32
Domestic - other	28	9
Total deferred tax liabilities	4,520	4,238
Net deferred tax liability	\$ 2,768	\$ 2,438

State deferred taxes are determined on a by entity, by jurisdiction basis. As a result, \$28 million and \$24 million of net deferred tax assets are shown as "Other noncurrent assets" on the Balance Sheets for 2018 and 2017.

At December 31, 2018, PPL had the following loss and tax credit carryforwards, related deferred tax assets and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards				
Federal net operating losses	\$ 1,519	\$ 319	\$ —	2031-2037
Federal charitable contributions	29	6	—	2020-2022
State net operating losses	5,725	418	(370)	2019-2038
State charitable contributions	7	1	—	2020-2022
Foreign net operating losses	6	1	—	Indefinite
Foreign capital losses	1,842	313	(313)	Indefinite
Credit carryforwards				
Federal investment tax credit		133	—	2025-2036
Federal alternative minimum tax credit (a)		15	—	Indefinite
Federal foreign tax credits (b)		218	(113)	2024-2027
Federal - other		25	(8)	2019-2038
State - other		1	—	Indefinite

(a) The TCJA repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017. The existing indefinite carryforward period for AMT credits was retained.

(b) Includes \$62 million of foreign tax credits carried forward from 2016 and \$156 million of additional foreign tax credits from 2017 related to the taxable deemed dividend associated with the TCJA.

Valuation allowances have been established for the amount that, more likely than not, will not be realized. The changes in deferred tax valuation allowances were as follows:

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	Balance at Beginning of Period	Additions			Balance at End of Period
		Charged to Income	Charged to Other Accounts	Deductions	
2018	\$ 838	\$ 26	\$ —	\$ 56 (a)	\$ 808
2017	593	256 (b)	—	11	838
2016	662	17	2	88 (c)	593

(a) Decrease in the valuation allowance of approximately \$35 million due to the change in the total foreign tax credits available after finalization of the deemed dividend calculation required by the TCJA in 2017. In addition, the deferred tax assets and corresponding valuation allowances were reduced in 2018 by approximately \$19 million due to the effect of foreign currency exchange rates.

(b) Increase in valuation allowance of approximately \$145 million related to expected future utilization of both 2017 foreign tax credits and pre-2017 foreign tax credits carried forward. For additional information, see the "Reconciliation of Income Tax Expense" and associated notes below.

In addition, the reduction of the U.S. federal corporate income tax rate enacted by the TCJA in 2017 resulted in a \$62 million increase in federal deferred tax assets and a corresponding valuation allowance related to the federal tax benefits of state net operating losses.

(c) The reduction of the U.K. statutory income tax rate in 2016 resulted in a \$19 million reduction in deferred tax assets and corresponding valuation allowances. See "Reconciliation of Income Tax Expense" below for additional information on the impact of the U.K. Finance Act 2016. In addition, deferred tax assets and corresponding valuation allowances were reduced in 2016 by approximately \$65 million due to the effect of foreign currency exchange rates.

PPL Global does not record U.S. income taxes on the unremitted earnings of WPD, as management has determined that such earnings are indefinitely reinvested. Current year distributions from WPD to the U.S. are sourced from a portion of the current year's earnings of the WPD group. There have been no material changes to the facts underlying PPL's assertion that historically reinvested earnings of WPD as well as some portion of current year earnings will continue to be indefinitely reinvested. WPD's long-term working capital forecasts and capital expenditure projections for the foreseeable future require reinvestment of WPD's undistributed earnings. Additionally, U.S. long-term working capital forecasts and capital expenditure projections for the foreseeable future do not require or contemplate annual distributions from WPD in excess of some portion of WPD's future annual earnings. The cumulative undistributed earnings are included in "Earnings reinvested" on the Balance Sheets. The amount considered indefinitely reinvested at December 31, 2018 was \$6.7 billion. The foregoing is not impacted by U.S. tax reform and the conversion from a worldwide to a participation exemption system. It is not practicable to estimate the amount of additional taxes that could be payable on these foreign earnings in the event of repatriation to the U.S.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:

	2018	2017	2016
Income Tax Expense (Benefit)			
Current - Federal	\$ (19)	\$ 6	\$ (14)
Current - State	17	25	21
Current - Foreign	104	45	80
Total Current Expense	102	76	87
Deferred - Federal (a)	203	532	385
Deferred - State	100	88	89
Deferred - Foreign	107	133	86
Total Deferred Expense, excluding operating loss carryforwards	410	753	560
Amortization of investment tax credit	(3)	(3)	(3)
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	(20)	(16)	25
Deferred - State	(31)	(26)	(21)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(51)	(42)	4
Total income taxes	\$ 458	\$ 784	\$ 648
Total income tax expense - Federal	\$ 161	\$ 519	\$ 393
Total income tax expense - State	86	87	89
Total income tax expense - Foreign	211	178	166
Total income taxes	\$ 458	\$ 784	\$ 648

(a) Due to the enactment of the TCJA, PPL recorded the following in 2017:

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- \$220 million of deferred income tax expense related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities;
- \$162 million of deferred tax expense related to the utilization of current year losses resulting from the taxable deemed dividend; partially offset by,
- \$60 million of deferred tax benefits related to the \$205 million of 2017 foreign tax credits partially offset by \$145 million of valuation allowances.

In the table above, the following income tax expense (benefit) are excluded from income taxes.

	2018	2017	2016
Stock-based compensation recorded to Earnings reinvested	\$ —	\$ —	\$ (7)
Other comprehensive income	(6)	(34)	(6)
Valuation allowance on state deferred taxes recorded to other comprehensive income	—	(1)	1
Total	<u>\$ (6)</u>	<u>\$ (35)</u>	<u>\$ (12)</u>

	2018	2017	2016
Reconciliation of Income Tax Expense			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 480	\$ 669	\$ 893
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit (a)	40	46	46
Valuation allowance adjustments (b)	21	36	16
Impact of lower U.K. income tax rates(c)	(25)	(176)	(177)
U.S. income tax on foreign earnings - net of foreign tax credit (a)(d)	3	47	(42)
Foreign income return adjustments	—	(8)	2
Impact of the U.K. Finance Act on deferred tax balances (e)	(13)	(16)	(49)
Depreciation and other items not normalized	(11)	(10)	(10)
Amortization of excess deferred federal and state income taxes(f)	(37)	—	—
Interest benefit on U.K. financing entities	(17)	(16)	(17)
Stock-based compensation	4	(3)	(10)
Deferred tax impact of U.S. tax reform (g)	—	220	—
Deferred tax impact of Kentucky tax reform (h)	9	—	—
Other (i)	4	(5)	(4)
Total increase (decrease)	<u>(22)</u>	<u>115</u>	<u>(245)</u>
Total income taxes	<u>\$ 458</u>	<u>\$ 784</u>	<u>\$ 648</u>
Effective income tax rate	20.0%	41.0%	25.4%

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

(b) During 2017, PPL recorded an increase in valuation allowances of \$23 million primarily related to foreign tax credits recorded in 2016. The future utilization of these credits is expected to be lower as a result of the TCJA.

During 2018, 2017 and 2016, PPL recorded deferred income tax expense of \$24 million, \$16 million and \$13 million for valuation allowances primarily related to increased Pennsylvania net operating loss carryforwards expected to be unutilized.

(c) The reduction in the U.S. federal corporate income tax rate from 35% to 21% significantly reduced the difference between the U.K. and U.S. income tax rates in 2018 compared with 2017.

(d) During 2017, PPL recorded a federal income tax benefit of \$35 million primarily attributable to U.K. pension contributions.

During 2017, PPL recorded deferred income tax expense of \$83 million primarily related to enactment of the TCJA. The enacted tax law included a conversion from a worldwide tax system to a territorial tax system, effective January 1, 2018. In the transition to the territorial regime, a one-time transition tax was imposed on PPL's unrepatriated accumulated foreign earnings in 2017. These earnings were treated as a taxable deemed dividend to PPL of approximately \$462 million, including \$205 million of foreign tax credits. As the PPL consolidated U.S. group had a taxable loss for 2017, inclusive of the taxable deemed dividend, these credits were recorded as a deferred tax asset. However, it is expected that under the TCJA, only \$83 million of the \$205 million of foreign tax credits will be realized in the carry forward period. Accordingly, a valuation allowance on the current year foreign tax credits in the amount of \$122 million has been recorded to reflect the reduction in the future utilization of the credits. The foreign tax credits associated with the deemed repatriation result in a gross carryforward and corresponding deferred tax asset of \$205 million offset by a valuation allowance of \$122 million.

During 2016, PPL recorded lower income taxes primarily attributable to foreign tax credit carryforwards, arising from a decision to amend prior year tax returns to claim foreign tax credits rather than deduct foreign taxes. This decision was prompted by changes to the company's most recent business plan.

(e) The U.K. Finance Act 2016, enacted in September 2016, reduced the U.K. statutory income tax rate effective April 1, 2020 to 17%. As a result, PPL reduced its net deferred tax liabilities and recognized a \$42 million deferred income tax benefit during 2016.

(f) During 2018, PPL recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

(g) During 2017, PPL recorded deferred income tax expense related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

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

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During 2018, PPL filed its consolidated federal income tax return, which included updates to the TCJA provisional amounts recorded in 2017. The adjustments to the various provisional amounts that are considered complete as of the filed tax return resulted in an immaterial impact to income tax expense and are discussed in the TCJA section above.

	2018	2017	2016
Taxes, other than income			
State gross receipts	\$ 103	\$ 102	\$ 100
State capital stock	—	(6)	—
Foreign property	134	127	135
Domestic Other	75	69	66
Total	\$ 312	\$ 292	\$ 301

(PPL Electric)

The provision for PPL Electric's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the PUC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of PPL Electric's deferred income tax assets and liabilities were as follows:

	2018	2017
Deferred Tax Assets		
Accrued pension and postretirement costs	\$ 110	\$ 81
Contributions in aid of construction	118	117
Regulatory liabilities	35	25
Income taxes due to customers	181	193
State loss carryforwards	14	19
Federal loss carryforwards	79	91
Other	25	27
Total deferred tax assets	562	553
Deferred Tax Liabilities		
Electric utility plant - net	1,681	1,544
Reacquired debt costs	6	8
Regulatory assets	176	150
Other	19	5
Total deferred tax liabilities	1,882	1,707
Net deferred tax liability	\$ 1,320	\$ 1,154

PPL Electric expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2018, PPL Electric had the following loss carryforwards and related deferred tax assets:

	Gross	Deferred Tax Asset	Expiration
Loss carryforwards			
Federal net operating losses	\$ 370	\$ 78	2031-2037
Federal charitable contributions	6	1	2020-2022
State net operating losses	180	14	2031-2032
State charitable contributions	5	—	2020-2022

Credit carryforwards were insignificant at December 31, 2018.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows.

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	2018	2017	2016
Income Tax Expense (Benefit)			
Current - Federal	\$ 2	\$ (65)	\$ (29)
Current - State	9	20	19
Total Current Expense (Benefit)	11	(45)	(10)
Deferred - Federal (a)	96	234	193
Deferred - State	37	29	29
Total Deferred Expense, excluding operating loss carryforwards	133	263	222
Tax expense (benefit) of operating loss carryforwards			
Deferred - Federal	(8)	(5)	—
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(8)	(5)	—
Total income taxes	\$ 136	\$ 213	\$ 212
Total income tax expense - Federal	\$ 90	\$ 164	\$ 164
Total income tax expense - State	46	49	48
Total income taxes	\$ 136	\$ 213	\$ 212

(a) Due to the enactment of the TCJA in 2017, PPL Electric recorded a \$13 million deferred tax benefit related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities.

	2018	2017	2016
Reconciliation of Income Taxes			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 119	\$ 201	\$ 193
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit (a)	43	36	36
Depreciation and other items not normalized	(11)	(8)	(8)
Amortization of excess deferred federal income taxes (a)	(17)	—	—
Stock-based compensation	1	(2)	(6)
Deferred tax impact of U.S. tax reform (b)	—	(13)	—
Other	1	(1)	(3)
Total increase (decrease)	17	12	19
Total income taxes	\$ 136	\$ 213	\$ 212
Effective income tax rate	24.0%	37.0%	38.4%

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

(b) During 2017, PPL Electric recorded a deferred tax benefit related to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2018	2017	2016
Taxes, other than income			
State gross receipts	\$ 103	\$ 102	\$ 100
Property and other	6	5	5
Total	\$ 109	\$ 107	\$ 105

(LKE)

The provision for LKE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

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significant components of LKE's deferred income tax assets and liabilities were as follows:

	2018	2017
Deferred Tax Assets		
Federal loss carryforwards	\$ 142	\$ 150
State loss carryforwards	33	41
Federal tax credit carryforwards	169	181
Contributions in aid of construction	21	17
Regulatory liabilities	52	43
Accrued pension and postretirement costs	92	100
Income taxes due to customers	299	305
Deferred investment tax credits	32	33
Valuation allowances	(8)	(8)
Other	29	33
Total deferred tax assets	861	895
Deferred Tax Liabilities		
Plant - net	1,671	1,615
Regulatory assets	138	138
Other	8	8
Total deferred tax liabilities	1,817	1,761
Net deferred tax liability	\$ 956	\$ 866

At December 31, 2018, LKE had the following loss and tax credit carryforwards, related deferred tax assets, and valuation allowances recorded against the deferred tax assets.

	Gross	Deferred Tax Asset	Valuation Allowance	Expiration
Loss carryforwards				
Federal net operating losses	\$ 674	\$ 142	\$ —	2031 - 2037
Federal charitable contributions	11	2	—	2020 - 2022
State net operating losses	848	33	—	2029 - 2038
Credit carryforwards				
Federal investment tax credit		133	—	2025 - 2028, 2036
Federal alternative minimum tax credit (a)		14	—	Indefinite
Federal - other		22	(8)	2019-2038
State - other		1	—	Indefinite

(a) The TCJA repealed the corporate alternative minimum tax (AMT) for tax years beginning after December 31, 2017. The existing indefinite carryforward period for AMT credits was retained.

Changes in deferred tax valuation allowances were:

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
2018	\$ 8	\$ —	\$ —	\$ 8
2017	11	4 (a)	7 (b)	8
2016	12	—	1 (b)	11

(a) Federal tax credits expiring in 2021 that are more likely than not to expire before being utilized.

(b) Federal tax credit expiring.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income"

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re:

	2018	2017	2016
Income Tax Expense (Benefit)			
Current - Federal	\$ 31	\$ 74	\$ (36)
Current - State	4	6	1
Total Current Expense (Benefit)	35	80	(35)
Deferred - Federal (a)	65	268	248
Deferred - State	34	32	38
Total Deferred Expense, excluding benefits of operating loss carryforwards	99	300	286
Amortization of investment tax credit - Federal	(3)	(3)	(3)
Tax benefit of operating loss carryforwards			
Deferred - Federal	(2)	(2)	10
Deferred - State	—	—	(1)
Total Tax Expense (Benefit) of Operating Loss Carryforwards	(2)	(2)	9
Total income taxes (b)	\$ 129	\$ 375	\$ 257
Total income tax expense - Federal	\$ 91	\$ 337	\$ 219
Total income tax expense - State	38	38	38
Total income taxes (b)	\$ 129	\$ 375	\$ 257

- (a) Due to the enactment of the TCJA in 2017, LKE recorded \$112 million of deferred income tax expense, of which \$108 million related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities and \$4 million related to valuation allowances on tax credits expiring in 2021.
- (b) Excludes deferred federal and state tax expense (benefit) recorded to OCI of \$5 million in 2018, \$(10) million in 2017 and \$(16) million in 2016.

	2018	2017	2016
Reconciliation of Income Tax Expense			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 121	\$ 242	\$ 240
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	22	26	26
Amortization of investment tax credit	(3)	(3)	(3)
Amortization of excess deferred federal and state income taxes (b)	(20)	(2)	(1)
Stock-based compensation	1	1	(3)
Deferred tax impact of U.S. tax reform (c)	—	112	—
Deferred tax impact of state tax reform (d)	9	—	—
Other (e)	(1)	(1)	(2)
Total increase	8	133	17
Total income taxes	\$ 129	\$ 375	\$ 257
Effective income tax rate	22.5%	54.3%	37.5%

- (a) The U.S. federal corporate tax rate was reduced from 35% to 21%, as enacted by the TCJA, effective January 1, 2018.
- (b) During 2018, LKE recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
- (c) During 2017, LKE recorded deferred income tax expense primarily due to the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.
- (d) During 2018, LKE recorded deferred income tax expense, primarily associated with LKE's non-regulated entities, due to the Kentucky corporate income tax rate reduction from 6% to 5%, as enacted by HB 487, effective January 1, 2018.
- (e) During 2018, PPL filed its consolidated federal income tax return, which included updates to the TCJA provisional amounts recorded in 2017. The adjustments to the various provisional amounts that are considered complete as of the filed tax return resulted in an immaterial impact to income tax expense and are discussed in the TCJA section above.

	2018	2017	2016
Taxes, other than income			
Property and other	\$ 70	\$ 65	\$ 62
Total	\$ 70	\$ 65	\$ 62

(LG&E)

The provision for LG&E's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC and the FERC. The difference in the provision for deferred income taxes for

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Regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of LG&E's deferred income tax assets and liabilities were as follows:

	2018	2017
Deferred Tax Assets		
Federal loss carryforwards	\$ —	\$ 29
Contributions in aid of construction	14	11
Regulatory liabilities	24	21
Accrued pension and postretirement costs	16	14
Deferred investment tax credits	9	9
Income taxes due to customers	139	142
Other	15	19
Total deferred tax assets	217	245
Deferred Tax Liabilities		
Plant - net	751	724
Regulatory assets	88	88
Other	6	5
Total deferred tax liabilities	845	817
Net deferred tax liability	\$ 628	\$ 572

LG&E expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

At December 31, 2018 LG&E had \$6 million of federal credit carryforwards that expire from 2036 - 2038.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2018	2017	2016
Income Tax Expense (Benefit)			
Current - Federal	\$ —	\$ —	\$ (22)
Current - State	4	5	1
Total current Expense (Benefit)	4	5	(21)
Deferred - Federal	51	112	134
Deferred - State	10	14	18
Total Deferred Expense, excluding benefits of operating loss carryforwards	61	126	152
Amortization of investment tax credit - Federal	(1)	(1)	(1)
Tax benefit of operating loss carryforwards			
Deferred - Federal	—	1	(4)
Total Tax Benefit of Operating Loss Carryforwards	—	1	(4)
Total income taxes	\$ 64	\$ 131	\$ 126
Total income tax expense - Federal	\$ 50	\$ 112	\$ 107
Total income tax expense - State	14	19	19
Total income taxes	\$ 64	\$ 131	\$ 126

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	2018	2017	2016
Reconciliation of Income Tax Expense			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 62	\$ 120	\$ 115
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	11	14	12
Amortization of investment tax credit	(1)	(1)	(1)
Amortization of excess deferred federal and state income taxes (b)	(8)	(1)	—
Other	—	(1)	—
Total increase	2	11	11
Total income taxes	\$ 64	\$ 131	\$ 126
Effective income tax rate	21.5%	38.1%	38.3%

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

(b) During 2018, LG&E recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2018	2017	2016
Taxes, other than income			
Property and other	\$ 36	\$ 33	\$ 32
Total	\$ 36	\$ 33	\$ 32

(KU)

The provision for KU's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles reflected in rates established by the KPSC, VSCC and the FERC. The difference in the provision for deferred income taxes for regulated assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included in "Regulatory assets" or "Regulatory liabilities" on the Balance Sheets.

Significant components of KU's deferred income tax assets and liabilities were as follows:

	2018	2017
Deferred Tax Assets		
Federal loss carryforwards	\$ —	\$ 13
Contributions in aid of construction	7	6
Regulatory liabilities	28	22
Accrued pension and postretirement costs	7	7
Deferred investment tax credits	23	24
Income taxes due to customers	160	163
Other	3	8
Total deferred tax assets	228	243
Deferred Tax Liabilities		
Plant - net	911	882
Regulatory assets	50	50
Other	2	2
Total deferred tax liabilities	963	934
Net deferred tax liability	\$ 735	\$ 691

KU expects to have adequate levels of taxable income to realize its recorded deferred income tax assets.

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Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were:

	2018	2017	2016
Income Tax Expense (Benefit)			
Current - Federal	\$ 22	\$ —	\$ 31
Current - State	6	7	5
Total Current Expense (Benefit)	28	7	36
Deferred - Federal	40	138	131
Deferred - State	10	16	19
Total Deferred Expense, excluding benefits of operating loss carryforwards	50	154	150
Amortization of investment tax credit - Federal	(2)	(2)	(2)
Tax benefit of operating loss carryforwards			
Deferred - Federal	—	—	(21)
Total Tax Benefit of Operating Loss Carryforwards	—	—	(21)
Total income taxes	\$ 76	\$ 159	\$ 163
Total income tax expense - Federal			
	\$ 60	\$ 136	\$ 139
Total income tax expense - State			
	16	23	24
Total income taxes	\$ 76	\$ 159	\$ 163

	2018	2017	2016
Reconciliation of Income Tax Expense			
Federal income tax on Income Before Income Taxes at statutory tax rate (a)	\$ 76	\$ 146	\$ 150
Increase (decrease) due to:			
State income taxes, net of federal income tax benefit	13	15	16
Amortization of investment tax credit	(2)	(2)	(2)
Amortization of excess deferred federal and state income taxes (b)	(12)	(1)	(1)
Other	1	1	—
Total increase (decrease)	—	13	13
Total income taxes	\$ 76	\$ 159	\$ 163
Effective income tax rate	21.0%	38.0%	38.1%

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

(b) During 2018, KU recorded lower income tax expense for the amortization of excess deferred income taxes that primarily resulted from the U.S. federal corporate income tax rate reduction from 35% to 21% enacted by the TCJA.

	2018	2017	2016
Taxes, other than income			
Property and other	\$ 34	\$ 32	\$ 30
Total	\$ 34	\$ 32	\$ 30

Unrecognized Tax Benefits (All Registrants)

PPL or its subsidiaries file tax returns in four major tax jurisdictions. The income tax provisions for PPL Electric, LG&E and KU are calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. Based on this tax sharing agreement, PPL Electric or its subsidiaries indirectly or directly file tax returns in two major tax jurisdictions, and LKE, LG&E and KU or their subsidiaries indirectly or directly file tax returns in two major tax jurisdictions. With few exceptions, at December 31, 2018, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
U.S. (federal)	2013 and prior	2013 and prior	2013 and prior	2013 and prior	2013 and prior
Pennsylvania (state)	2011 and prior	2011 and prior			
Kentucky (state)	2013 and prior		2013 and prior	2013 and prior	2013 and prior
U.K. (foreign)	2015 and prior				

her

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, LG&E's and KU's accounting for income taxes is impacted by rate regulation. Therefore, reductions in regulated accumulated deferred income tax balances due to the reduction in the Kentucky corporate income tax rate to 5% under the provisions of HB 487 will result in amounts previously collected from utility customers for these deferred taxes to be refundable to such customers in future periods. In 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

Regulatory Assets and Liabilities

(All Registrants)

PPL, PPL Electric, LKE, LG&E and KU reflect the effects of regulatory actions in the financial statements for their cost-based rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to an item will be recovered or refunded within a year of the balance sheet date.

(PPL)

WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and does not record regulatory assets and liabilities. See Note 1 for additional information.

(PPL, LKE, LG&E and KU)

LG&E is subject to the jurisdiction of the KPSC and FERC, and KU is subject to the jurisdiction of the KPSC, FERC and VSCC.

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

As a result of purchase accounting requirements, certain fair value amounts related to contracts that had favorable or unfavorable terms relative to market were recorded on the Balance Sheets with an offsetting regulatory asset or liability. LG&E and KU recover in customer rates the cost of power purchases. As a result, management believes the regulatory assets and liabilities created to offset the fair value amounts at LKE's acquisition date meet the recognition criteria established by existing accounting guidance and eliminate any rate-making impact of the fair value adjustments. LG&E's and KU's customer rates continue to reflect the original contracted prices for remaining contracts.

(PPL, LKE and KU)

KU's Virginia base rates are calculated based on a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except the levelized fuel factor and regulatory assets or liabilities recorded for pension and postretirement benefits and AROs related to certain CCR

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impoundments, are excluded from the return on rate base utilized in the calculation of Virginia base rates, no return is earned on the related assets.

KU's rates to 10 municipal customers for wholesale power requirements are calculated based on annual updates to a formula rate that utilizes a return on rate base (net utility plant plus working capital less accumulated deferred income taxes and miscellaneous deductions). As all regulatory assets and liabilities, except regulatory assets recorded for AROs related to certain CCR impoundments, are excluded from the return on rate base utilized in the development of municipal rates, no return is earned on the related assets.

(PPL and PPL Electric)

PPL Electric's distribution base rates are calculated based on recovery of costs as well as a return on distribution rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions). PPL Electric's transmission revenues are billed in accordance with a FERC tariff that allows for recovery of transmission costs incurred, a return on transmission-related rate base (net utility plant plus a working capital allowance less plant-related deferred taxes and other miscellaneous additions and deductions) and an automatic annual update. See "Transmission Formula Rate" below for additional information on this tariff. All regulatory assets and liabilities are excluded from distribution and transmission return on investment calculations; therefore, generally no return is earned on PPL Electric's regulatory assets.

(All Registrants)

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations at December 31:

	PPL		PPL Electric	
	2018	2017	2018	2017
Current Regulatory Assets:				
Environmental cost recovery	\$ —	\$ 5	\$ —	\$ —
Generation formula rate	—	6	—	—
Gas supply clause	12	4	—	—
Smart meter rider	11	15	11	15
Plant outage costs	10	3	—	—
Other	3	1	—	1
Total current regulatory assets (a)	\$ 36	\$ 34	\$ 11	\$ 16
Noncurrent Regulatory Assets:				
Defined benefit plans	\$ 963	\$ 880	\$ 558	\$ 504
Taxes recoverable through future rates	3	3	3	3
Storm costs	56	33	22	—
Unamortized loss on debt	45	54	22	29
Interest rate swaps	20	26	—	—
Terminated interest rate swaps	87	92	—	—
Accumulated cost of removal of utility plant	200	173	200	173
AROs	273	234	—	—
Act 129 compliance rider	19	—	19	—
Other	7	9	—	—
Total noncurrent regulatory assets	\$ 1,673	\$ 1,504	\$ 824	\$ 709
Current Regulatory Liabilities:				
Generation supply charge	\$ 33	\$ 34	\$ 33	\$ 34
Transmission service charge	3	9	3	9
Environmental cost recovery	16	1	—	—
Universal service rider	27	26	27	26
Transmission formula rate	3	9	3	9
TCJA customer refund	20	—	3	—
Storm damage expense rider	5	8	5	8
Other	15	8	—	—
Total current regulatory liabilities	\$ 122	\$ 95	\$ 74	\$ 86

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Defined Benefit Plans

(All Registrants)

Defined benefit plan regulatory assets and liabilities represent prior service cost and net actuarial gains and losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and, generally, are amortized over the average remaining service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is remeasured.

Effective January 1, 2018, the Registrants adopted new accounting guidance that changes the income statement presentation of net periodic benefit cost and limits the capitalization to the service cost component of net periodic benefit cost. The non-service costs or credits that would have been capitalized under previous guidance are still able to be recovered through future base rates and are therefore now recognized as a regulatory asset or liability and amortized over the weighted average useful life of the asset base on which those non-service costs would have been capitalized. As of December 31, 2018, the regulatory liability balances were \$11 million for PPL, \$5 million for PPL Electric and \$6 million for LKE and KU. As of December 31, 2018, the regulatory asset balances were \$1 million for PPL, LKE and LG&E.

(PPL, LKE, LG&E and KU)

As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between pension cost calculated in accordance with LG&E's and KU's pension accounting policy and pension cost calculated using a 15-year amortization period for actuarial gains and losses is recorded as a regulatory asset. As of December 31, 2018, the balances were \$45 million for PPL and LKE, \$25 million for LG&E and \$20 million for KU. As of December 31, 2017, the balances were \$33 million for PPL and LKE, \$18 million for LG&E and \$15 million for KU.

(All Registrants)

Storm Costs

PPL Electric, LG&E and KU have the ability to request from the PUC, KPSC and VSCC, as applicable, the authority to treat expenses related to specific extraordinary storms as a regulatory asset and defer such costs for regulatory accounting and reporting purposes. Once such authority is granted, LG&E and KU can request recovery of those expenses in a base rate case and begin amortizing the costs when recovery starts. PPL Electric can recover qualifying expenses caused by major storm events, as defined in its retail tariff, over three years through the Storm Damage Expense Rider commencing in the application year after the storm occurred. PPL Electric's regulatory assets for storm costs are being amortized through various dates ending in 2021. The amortization period of LG&E's and KU's regulatory assets for storm costs are subject to the results of the current Kentucky rate case discussed below in "Regulatory Matters - Kentucky Activities - Rate Case Proceedings."

Unamortized Loss on Debt

Unamortized loss on reacquired debt represents losses on long-term debt reacquired or redeemed that have been deferred and will be amortized and recovered over either the original life of the extinguished debt or the life of the replacement debt (in the case of refinancing). Such costs are being amortized through 2029 for PPL Electric, through 2042 for KU, and through 2044 for LKE and LG&E.

Accumulated Cost of Removal of Utility Plant

LG&E and KU charge costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred.

PPL Electric does not accrue for costs of removal. When costs of removal are incurred, PPL Electric records the costs as a regulatory asset. Such deferral is included in rates and amortized over the subsequent five-year period.

TCJA Customer Refund

As a result of the reduced U.S. federal corporate income tax rate as enacted by the TCJA, the regulators of PPL Electric, LG&E and KU have ruled that these tax benefits should be refunded to customers. In some instances, timing differences occur between the recognition of these tax benefits and the refund of the benefit to the customers which create a regulatory asset or liability.

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I&E and KU are currently distributing these amounts through the TCJA bill credit until tax-related savings will be reflected in base rates.

PPL Electric's current liability relates to the period of July 1, 2018 through December 31, 2018 and will be credited back to distribution customers through a negative surcharge which became effective July 1, 2018. Additionally, PPL Electric's noncurrent liability balance relates to the period of January 1, 2018 through June 30, 2018 which is not yet reflected in distribution customer rates. PPL Electric must propose to the PUC the method by which it would like to return the amount of this liability to customers at the earlier of May 2021 or PPL Electric's next rate case.

Net Deferred Taxes

Regulatory liabilities associated with net deferred taxes represent the future revenue impact from the adjustment of deferred income taxes required primarily for excess deferred taxes and unamortized investment tax credits, largely a result of the TCJA enacted in 2017. See Note 6 for additional information on the TCJA.

(PPL and PPL Electric)

Generation Supply Charge (GSC)

The GSC is a cost recovery mechanism that permits PPL Electric to recover costs incurred to provide generation supply to PLR customers who receive basic generation supply service. The recovery includes charges for generation supply, as well as administration of the acquisition process. In addition, the GSC contains a reconciliation mechanism whereby any over- or under-recovery from prior quarters is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent rate filing period.

Transmission Service Charge (TSC)

PPL Electric is charged by PJM for transmission service-related costs applicable to its PLR customers. PPL Electric passes these costs on to customers, who receive basic generation supply service through the PUC-approved TSC cost recovery mechanism. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Transmission Formula Rate

PPL Electric's transmission revenues are billed in accordance with a FERC-approved Open Access Transmission Tariff that utilizes a formula-based rate recovery mechanism. Under this formula, rates are put into effect in June of each year based upon prior year actual expenditures and current year forecasted capital additions. Rates are then adjusted the following year to reflect actual annual expenses and capital additions, as reported in PPL Electric's annual FERC Form 1, filed under the FERC's Uniform System of Accounts. Any difference between the revenue requirement in effect for the prior year and actual expenditures incurred for that year is recorded as a regulatory asset or regulatory liability.

Storm Damage Expense Rider (SDER)

The SDER is a reconcilable automatic adjustment clause under which PPL Electric annually will compare actual storm costs to storm costs allowed in base rates and refund or recover any differences from customers. In the 2015 rate case settlement approved by the PUC in November 2015, it was determined that reportable storm damage expenses to be recovered annually through base rates will be set at \$20 million. The SDER will recover from or refund to customers, as appropriate, only applicable expenses from reportable storms that are greater than or less than \$20 million recovered annually through base rates. Storm costs incurred in PPL Electric's territory from a March 2018 storm will be amortized from 2019 through 2021.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that will be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

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Act 129 Compliance Rider

In compliance with Pennsylvania's Act 129 of 2008 and implementing regulations, PPL Electric is currently in Phase III of the energy efficiency and conservation plan which was approved in June 2016. Phase III allows PPL Electric to recover the maximum \$313 million over the five year period, June 1, 2016 through May 31, 2021. The plan includes programs intended to reduce electricity consumption. The recoverable costs include direct and indirect charges, including design and development costs, general and administrative costs and applicable state evaluator costs. The rates are applied to customers who receive distribution service through the Act 129 Compliance Rider. The actual Phase III program costs are reconcilable after each 12 month period, and any over- or under-recovery from customers will be refunded or recovered over the next rate filing period.

Smart Meter Rider (SMR)

Act 129 requires each electric distribution company (EDC) with more than 100,000 customers to have a PUC approved Smart Meter Technology Procurement and Installation Plan (SMP). Under its SMP, PPL Electric will replace its current meters with new meters that meet the Act 129 requirements by the end of 2019. Under Act 129, EDCs are able to recover the costs and earn a return on capital of providing smart metering technology. PPL Electric uses a mechanism known as the Smart Meter Rider (SMR) to recover the costs to implement its SMP on a full and current basis. The SMR is a reconciliation mechanism whereby any over- or under-recovery from prior years is refunded to, or recovered from, customers through the adjustment factor determined for the subsequent quarters.

Universal Service Rider (USR)

The USR provides for recovery of costs associated with universal service programs, OnTrack and Winter Relief Assistance Program (WRAP), provided by PPL Electric to residential customers. OnTrack is a special payment program for low-income households and WRAP provides low-income customers a means to reduce electric bills through energy saving methods. The USR rate is applied to residential customers who receive distribution service. The actual program costs are reconcilable, and any over- or under-recovery from customers will be refunded or recovered annually in the subsequent year.

(PPL, LKE, LG&E and KU)

Environmental Cost Recovery

Kentucky law permits LG&E and KU to recover the costs, including a return of operating expenses and a return of and on capital invested, of complying with the Clean Air Act and those federal, state or local environmental requirements, which apply to coal combustion wastes and by-products from coal-fired electricity generating facilities. The KPSC requires reviews of the past operations of the environmental surcharge for six-month and two-year billing periods to evaluate the related charges, credits and rates of return, as well as to provide for the roll-in of ECR amounts to base rates each two-year period. The KPSC has authorized a return on equity of 9.7% for all existing approved ECR plans and projects. The ECR regulatory asset or liability represents the amount that has been under- or over-recovered due to timing or adjustments to the mechanism and is typically recovered within 12 months.

Fuel Adjustment Clauses

LG&E's and KU's retail electric rates contain a fuel adjustment clause, whereby variances in the cost of fuel to generate electricity, including transportation costs, from the costs embedded in base rates are adjusted in LG&E's and KU's rates. The KPSC requires public hearings at six-month intervals to examine past fuel adjustments and at two-year intervals to review past operations of the fuel adjustment clause and, to the extent appropriate, reestablish the fuel charge included in base rates. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months. LG&E's fuel adjustment clause asset is included within other current regulatory assets above.

KU also employs a levelized fuel factor mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The Virginia levelized fuel factor allows fuel recovery based on projected fuel costs for the coming year plus an adjustment for any under- or over-recovery of fuel expenses from the prior year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to timing or adjustments to the mechanism and are typically recovered within 12 months.

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ROs

As discussed in Note 1, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

Power Purchase Agreement - OVEC

As a result of purchase accounting associated with PPL's acquisition of LKE, the fair values of the OVEC power purchase agreement were recorded on the balance sheets of LKE, LG&E and KU with offsets to regulatory liabilities. The regulatory liabilities are being amortized using the units-of-production method until March 2026, the expiration date of the agreement at the date of the acquisition. See Notes 1, 13 and 18 for additional discussion of the power purchase agreement.

Interest Rate Swaps

LG&E's unrealized gains and losses are recorded as regulatory assets or regulatory liabilities until they are realized as interest expense. Interest expense from existing swaps is realized and recovered over the terms of the associated debt, which matures through 2033.

Terminated Interest Rate Swaps

Net realized gains and losses on all interest rate swaps are probable of recovery through regulated rates. As such, any gains and losses on these derivatives are included in regulatory assets or liabilities and are primarily recognized in "Interest Expense" on the Statements of Income over the life of the associated debt.

Plant Outage Costs

The Stipulation to the 2016 Kentucky rate case that became effective July 1, 2017 provided for the normalization of expenses associated with plant outages using an eight-year average. The eight-year average is comprised of four historical years' and four forecasted years' expenses. Plant outage expenses that are greater or less than the eight-year average will be collected from or returned to customers, through future base rates. Prior year plant outage liabilities are included within other current regulatory liabilities above.

(PPL, LKE and LG&E)

Gas Line Tracker

The GLT authorizes LG&E to recover its incremental operating expenses, depreciation, property taxes and cost of capital, including a return on equity, for capital associated with the five year gas service riser, leak mitigation and customer service line ownership programs. As part of this program, LG&E makes necessary repairs to the gas distribution system and assumes ownership of service lines when replaced. In the 2016 rate case, the KPSC approved additional projects for recovery through the GLT mechanism related to further gas line replacements and transmission pipeline modernizations. Effective July 1, 2017, LG&E is authorized to earn a 9.7% return on equity for the GLT mechanism. As part of the 2016 rate case, LG&E now annually files a combined application which includes revised rates based on projected costs and a balancing adjustment calculation with rates effective on the first billing cycle in May. After the completion of a plan year, the balancing adjustment, as part of the combined application filing to the KPSC, amends rates charged for the differences between the actual costs and actual GLT charges for the preceding year. The regulatory assets or liabilities represent the amounts that have been under- or over-recovered due to these cost differences.

Gas Supply Clause

LG&E's natural gas rates contain a gas supply clause, whereby the expected cost of natural gas supply and variances between actual and expected costs from prior periods are adjusted quarterly in LG&E's rates, subject to approval by the KPSC. The gas supply clause also includes a separate natural gas procurement incentive mechanism, which allows LG&E's rates to be adjusted annually to share savings between the actual cost of gas purchases and market indices, with the shareholders and the customers during each performance-based rate year (12 months ending October 31). The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are typically recovered within 18 months.

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PL, LKE and KU

Generation Formula Rate

KU provides wholesale requirements service to its municipal customers and bills for this service pursuant to a FERC approved generation formula rate. Under this formula, rates are put into effect each July utilizing a return on rate base calculation and actual expenses from the preceding year. The regulatory asset or liability represents the difference between the revenue requirement in effect for the current year and actual expenditures incurred for the current year.

Regulatory Matters

(PPL, LKE, LG&E and KU)

Kentucky Activities

Rate Case Proceedings

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%. A number of parties have been granted intervention requests in the proceeding. Data discovery and the filing of written testimony will continue through February 2019 and a hearing is scheduled in March 2019. 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 for implementing 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 \$66 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, which reduced 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.

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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 September 28, 2018, the KPSC issued an Order on reconsideration, pursuant to LG&E's and KU's petition, 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).

In January 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. In March 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. In May 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 November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. LG&E and KU are currently assessing the Notice of Proposed Rulemaking and are continuing to monitor guidance issued by the FERC. On February 5, 2019, in connection with a separate element of federal and Kentucky state tax reform effects, LG&E and KU filed a request with the FERC to amend their transmission formula rates, effective June 1, 2019, to incorporate reductions to corporate income tax rates as a result of the TCJA and HB 487. LG&E and KU do not anticipate the impact of the TCJA related to their FERC-jurisdictional rates to be significant.

(LKE and LG&E)

Gas Franchise

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 5-year franchise agreement (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.

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PL 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 that required PPL Electric to file a tariff or tariff supplement by June 15, 2018 to establish (a) temporary rates 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 charge a negative surcharge of 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. PPL Electric recorded a \$41 million noncurrent regulatory liability and a corresponding reduction of revenue to be distributed to customers pursuant to a future rate adjustment related to the period January 1, 2018 through June 30, 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. On November 15, 2018, the FERC issued a Policy Statement which stated that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA will be addressed in a Notice of Proposed Rulemaking. Also on November 15, 2018, the FERC issued the Notice of Proposed Rulemaking which proposes that public utility transmission providers should include mechanisms in their formula rates to deduct excess accumulated deferred income taxes from, or add deficient accumulated deferred income taxes to, rate base and adjust their income tax allowances by amortized excess or deficient accumulated deferred income taxes. The Notice of Proposed Rulemaking did not prescribe the mechanism companies should use to adjust their formula rates. PPL Electric is currently assessing the Notice of Proposed Rulemaking and is continuing to monitor guidance issued by the FERC. 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 and PPL Electric)

FERC Formula Rate

In April 2018, PPL Electric filed its annual transmission formula rate update with the FERC, reflecting a revised revenue requirement, which includes the impact of the TCJA. The filing establishes the revenue requirement used to set rates that took effect in June 2018. The time period for any challenges to PPL Electric's annual update has expired. No formal challenges were submitted.

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PL, 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. 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, including amounts currently reserved, 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 2018, 2017 and 2016, PPL Electric purchased \$1.3 billion, \$1.3 billion and \$1.4 billion of accounts receivable from alternative suppliers.

8. Financing Activities

Credit Arrangements and Short-term Debt

(All Registrants)

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. For reporting purposes, on a consolidated basis, the credit facilities and commercial paper programs of PPL Electric, LKE, LG&E and KU also apply to PPL and the credit facilities and commercial paper programs of LG&E and KU also apply to LKE. The amounts borrowed below are recorded as "Short-term debt" on the Balance Sheets except for borrowings under LG&E's Term Loan Facility which are recorded as "Long-term debt due within one year" on the December 31, 2018 Balance Sheet and "Long-term debt" on the December 31, 2017 Balance Sheet. The following credit facilities were in place at:

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	December 31, 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	
PPL								
U.K.								
WPD plc								
Syndicated Credit Facility (a) (c)	Jan. 2023	£ 210	£ 157	£ —	£ 54	£ 148	£ —	
WPD (South West)								
Syndicated Credit Facility (a) (c)	July 2021	245	—	—	245	—	—	
WPD (East Midlands)								
Syndicated Credit Facility (a) (c)	July 2021	300	38	—	262	180	—	
WPD (West Midlands)								
Syndicated Credit Facility (a) (c)	July 2021	300	—	—	300	120	—	
Uncommitted Credit Facilities								
		130	—	4	126	—	4	
Total U.K. Credit Facilities (b)		£ 1,185	£ 195	£ 4	£ 987	£ 448	£ 4	
U.S.								
PPL Capital Funding								
Syndicated Credit Facility (c) (d)	Jan. 2023	\$ 950	\$ —	\$ 669	\$ 281	\$ —	\$ 230	
Bilateral Credit Facility (c) (d)	Mar. 2019	100	—	15	85	—	18	
Total PPL Capital Funding Credit Facilities		\$ 1,050	\$ —	\$ 684	\$ 366	\$ —	\$ 248	
PPL Electric								
Syndicated Credit Facility (c) (d)	Jan. 2023	\$ 650	\$ —	\$ 1	\$ 649	\$ —	\$ 1	
LG&E								
Syndicated Credit Facility (c) (d)	Jan. 2023	\$ 500	\$ —	\$ 279	\$ 221	\$ —	\$ 199	
Term Loan Credit Facility (c) (e)	Oct. 2019	200	200	—	—	100	—	
Total LG&E Credit Facilities		\$ 700	\$ 200	\$ 279	\$ 221	\$ 100	\$ 199	
KU								
Syndicated Credit Facility (c) (d)	Jan. 2023	\$ 400	\$ —	\$ 235	\$ 165	\$ —	\$ 45	
Letter of Credit Facility (c) (d) (f)	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 433	\$ 165	\$ —	\$ 243	

- (a) The facilities contain financial covenants to maintain an interest coverage ratio of not less than 3.0 times consolidated earnings before income taxes, depreciation and amortization and total net debt not in excess of 85% of its RAV, calculated in accordance with the credit facility.
- (b) The WPD plc amounts borrowed at December 31, 2018 and 2017 included USD-denominated borrowings of \$200 million for both periods, which bore interest at 3.17% and 2.17%. The unused capacity reflects the amount borrowed in GBP of £156 million as of the date borrowed. The WPD (East Midlands) amount borrowed at December 31, 2018 and December 31, 2017 was a GBP-denominated borrowing, which equated to \$48 million and \$244 million and bore interest at 1.12% and 0.89%. The WPD (West Midlands) amount borrowed at December 31, 2017 was a GBP-denominated borrowing, which equated to \$162 million and bore interest at 0.89%. At December 31, 2018, the unused capacity under the U.K. credit facilities was approximately \$1.3 billion.
- (c) Each company pays customary fees under its respective facility and borrowings generally bear interest at LIBOR-based rates plus an applicable margin.
- (d) The facilities contain a financial covenant requiring debt to total capitalization not to exceed 70% for PPL Capital Funding, PPL Electric, LKE, LG&E and KU, as calculated in accordance with the facilities and other customary covenants. Additionally, as it relates to the syndicated and bilateral credit facilities and subject to certain conditions, PPL Capital Funding may request that the capacity of its facility expiring in March 2019 be increased by up to \$30 million, LG&E and KU each may request up to a \$100 million increase in its facility's capacity.
- (e) LG&E entered into a term loan credit agreement in October 2017 whereby it may borrow up to \$200 million. The outstanding borrowings at December 31, 2018 and December 31, 2017 bore interest at an average rate of 2.97% and 2.06%.
- (f) KU's letter of credit facility agreement allows for certain payments under the letter of credit facility to be converted to loans rather than requiring immediate payment.

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

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	December 31, 2018			December 31, 2017		
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	2.82%	\$ 1,000	\$ 669	\$ 331	1.64%	\$ 230
PPL Electric		650	—	650		—
LG&E	2.94%	350	279	71	1.83%	199
KU	2.94%	350	235	115	1.97%	45
Total		\$ 2,350	\$ 1,183	\$ 1,167		\$ 474

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

See Note 14 for discussion of intercompany borrowings.

Long-term Debt (All Registrants)

	Weighted-Average Rate (g)	Maturities (g)	December 31,	
			2018	2017
PPL				
U.S.				
Senior Unsecured Notes	3.88%	2020 - 2047	\$ 4,325	\$ 4,575
Senior Secured Notes/First Mortgage Bonds (a) (b) (c)	3.99%	2019 - 2048	7,705	7,314
Junior Subordinated Notes	5.68%	2067 - 2073	930	930
Term Loan Credit Facility	2.97%	2019	200	100
Total U.S. Long-term Debt			13,160	12,919
U.K.				
Senior Unsecured Notes (d)	5.13%	2020 - 2040	6,471	6,351
Index-linked Senior Unsecured Notes (e)	1.45%	2026 - 2056	1,063	1,012
Total U.K. Long-term Debt (f)			7,534	7,363
Total Long-term Debt Before Adjustments			20,694	20,282
Fair market value adjustments			16	21
Unamortized premium and (discount), net (e)			9	14
Unamortized debt issuance costs			(120)	(122)
Total Long-term Debt			20,599	20,195
Less current portion of Long-term Debt			530	348
Total Long-term Debt, noncurrent			\$ 20,069	\$ 19,847
PPL Electric				
Senior Secured Notes/First Mortgage Bonds (a) (b)	4.22%	2020 - 2048	\$ 3,739	\$ 3,339
Total Long-term Debt Before Adjustments			3,739	3,339
Unamortized discount			(18)	(16)
Unamortized debt issuance costs			(27)	(25)
Total Long-term Debt			3,694	3,298
Less current portion of Long-term Debt			—	—
Total Long-term Debt, noncurrent			\$ 3,694	\$ 3,298

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	Weighted-Average Rate (g)	Maturities (g)	December 31,	
			2018	2017
LKE				
Senior Unsecured Notes	3.97%	2020 - 2021	\$ 725	\$ 725
Term Loan Credit Facility	2.97%	2019	200	100
First Mortgage Bonds (a) (c)	3.76%	2019 - 2045	3,966	3,975
Long-term debt to affiliate	3.69%	2026 - 2028	650	400
Total Long-term Debt Before Adjustments			5,541	5,200
Unamortized discount			(13)	(14)
Unamortized debt issuance costs			(26)	(27)
Total Long-term Debt			5,502	5,159
Less current portion of Long-term Debt			530	98
Total Long-term Debt, noncurrent			\$ 4,972	\$ 5,061
LG&E				
Term Loan Credit Facility	2.97%	2019	\$ 200	\$ 100
First Mortgage Bonds (a) (c)	3.58%	2019 - 2045	1,624	1,624
Total Long-term Debt Before Adjustments			1,824	1,724
Unamortized discount			(4)	(4)
Unamortized debt issuance costs			(11)	(11)
Total Long-term Debt			1,809	1,709
Less current portion of Long-term Debt			434	98
Total Long-term Debt, noncurrent			\$ 1,375	\$ 1,611
KU				
First Mortgage Bonds (a) (c)	3.89%	2019 - 2045	\$ 2,342	\$ 2,351
Total Long-term Debt Before Adjustments			2,342	2,351
Unamortized discount			(8)	(9)
Unamortized debt issuance costs			(13)	(14)
Total Long-term Debt			2,321	2,328
Less current portion of Long-term Debt			96	—
Total Long-term Debt, noncurrent			\$ 2,225	\$ 2,328

(a) Includes PPL Electric's senior secured and first mortgage bonds that are secured by the lien of PPL Electric's 2001 Mortgage Indenture, which covers substantially all electric distribution plant and certain transmission plant owned by PPL Electric. The carrying value of PPL Electric's property, plant and equipment was approximately \$9.4 billion and \$8.5 billion at December 31, 2018 and 2017.

Includes LG&E's first mortgage bonds that are secured by the lien of the LG&E 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of LG&E's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity and the storage and distribution of natural gas. The aggregate carrying value of the property subject to the lien was \$5.1 billion and \$4.7 billion at December 31, 2018 and 2017.

Includes KU's first mortgage bonds that are secured by the lien of the KU 2010 Mortgage Indenture which creates a lien, subject to certain exceptions and exclusions, on substantially all of KU's real and tangible personal property located in Kentucky and used or to be used in connection with the generation, transmission and distribution of electricity. The aggregate carrying value of the property subject to the lien was \$6.3 billion and \$6.0 billion at December 31, 2018 and 2017.

(b) Includes PPL Electric's series of senior secured bonds that secure its obligations to make payments with respect to each series of Pollution Control Bonds that were issued by the LCIDA and the PEDFA on behalf of PPL Electric. These senior secured bonds were issued in the same principal amount, contain payment and redemption provisions that correspond to and bear the same interest rate as such Pollution Control Bonds. These senior secured bonds were issued under PPL Electric's 2001 Mortgage Indenture and are secured as noted in (a) above. This amount includes \$224 million of which PPL Electric is allowed to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, or term rate of at least one year and \$90 million that may be redeemed, in whole or in part, at par beginning in October 2020, and are subject to mandatory redemption upon determination that the interest rate on the bonds would be included in the holders' gross income for federal tax purposes. Includes LG&E's and KU's series of first mortgage bonds that were issued to the respective trustees of tax-exempt revenue bonds to secure its respective obligations to make payments with respect to each series of bonds. The first mortgage bonds were issued in the same principal amounts, contain payment

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and redemption provisions that correspond to and bear the same interest rate as such tax-exempt revenue bonds. These first mortgage bonds were issued under the LG&E 2010 Mortgage Indenture and the KU 2010 Mortgage Indenture and are secured as noted in (a) above. The related tax-exempt revenue bonds were issued by various governmental entities, principally counties in Kentucky, on behalf of LG&E and KU. The related revenue bond documents allow LG&E and KU to convert the interest rate mode on the bonds from time to time to a commercial paper rate, daily rate, weekly rate, term rate of at least one year or, in some cases, an auction rate or a LIBOR index rate.

At December 31, 2018, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a term rate mode totaled \$505 million for LKE, comprised of \$391 million and \$114 million for LG&E and KU respectively. At December 31, 2018, the aggregate tax-exempt revenue bonds issued on behalf of LG&E and KU that were in a variable rate mode totaled \$375 million for LKE, comprised of \$147 million and \$228 million for LG&E and KU respectively. These variable rate tax-exempt revenue bonds are subject to tender for purchase by LG&E and KU at the option of the holder and to mandatory tender for purchase by LG&E and KU upon the occurrence of certain events.

- (d) Includes £225 million (\$287 million at December 31, 2018) of notes that may be redeemed, in total but not in part, on December 21, 2026, at the greater of the principal value or a value determined by reference to the gross redemption yield on a nominated U.K. Government bond.
- (e) The principal amount of the notes issued by WPD (South West), WPD (East Midlands) and WPD (South Wales) is adjusted based on changes in a specified index, as detailed in the terms of the related indentures. The adjustment to the principal amounts from 2017 to 2018 was an increase of approximately £26 million (\$33 million) resulting from inflation. In addition, this amount includes £319 million (\$407 million at December 31, 2018) of notes issued by WPD (South West) that may be redeemed, in total by series, on December 1, 2026, at the greater of the adjusted principal value and a make-whole value determined by reference to the gross real yield on a nominated U.K. government bond.
- (f) Includes £5.3 billion (\$6.7 billion at December 31, 2018) of notes that may be put by the holders to the issuer for redemption if the long-term credit ratings assigned to the notes are withdrawn by any of the rating agencies (Moody's or S&P) or reduced to a non-investment grade rating of Ba1 or BB+ or lower in connection with a restructuring event, which includes the loss of, or a material adverse change to, the distribution licenses under which the issuer operates.
- (g) The table reflects principal maturities only, based on stated maturities or earlier put dates, and the weighted-average rates as of December 31, 2018.

None of the outstanding debt securities noted above have sinking fund requirements. The aggregate maturities of long-term debt, based on stated maturities or earlier put dates, for the periods 2019 through 2023 and thereafter are as follows:

	PPL	PPL Electric	LKE	LG&E	KU
2019	\$ 530	\$ —	\$ 530	\$ 434	\$ 96
2020	1,266	100	975	—	500
2021	1,248	400	348	98	—
2022	1,274	474	—	—	—
2023	2,233	90	13	—	13
Thereafter	14,143	2,675	3,675	1,292	1,733
Total	\$ 20,694	\$ 3,739	\$ 5,541	\$ 1,824	\$ 2,342

PL)

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 Note upon maturity.

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 were 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.

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PL, 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 14 for additional information related to intercompany borrowings.

Legal Separateness *(All Registrants)*

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Electric and LKE. Accordingly, creditors of PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

(PPL)

Equity Securities

Equity Forward Contracts

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

In connection with the registered public offering, PPL entered into forward sale agreements with two counterparties covering the 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.

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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 year ended December 31, 2018.

Distributions and Related Restrictions

In November 2018, PPL declared its quarterly common stock dividend, payable January 2, 2019, at 41.0 cents per share (equivalent to \$1.64 per annum). On February 14, 2019, PPL announced that the company is increasing its common stock dividend to 41.25 cents per share on a quarterly basis (equivalent to \$1.65 per annum). Future dividends, declared at the discretion of the Board of Directors, will depend upon future earnings, cash flows, financial and legal requirements and other factors.

Neither PPL Capital Funding nor PPL may declare or pay any cash dividend or distribution on its capital stock during any period in which PPL Capital Funding defers interest payments on its 2007 Series A Junior Subordinated Notes due 2067 or 2013 Series B Junior Subordinated Notes due 2073. At December 31, 2018, no interest payments were deferred.

WPD subsidiaries have financing arrangements that limit their ability to pay dividends. However, PPL does not, at this time, expect that any of such limitations would significantly impact PPL's ability to meet its cash obligations.

(All Registrants)

PPL relies on dividends or loans from its subsidiaries to fund PPL's dividends to its common shareholders. The net assets of certain PPL subsidiaries are subject to legal restrictions. LKE primarily relies on dividends from its subsidiaries to fund its distributions to PPL. LG&E, KU and PPL Electric are subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. LG&E, KU and PPL Electric believe, however, that this statutory restriction, as applied to their circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes. In February 2012, LG&E and KU petitioned the FERC requesting authorization to pay dividends in the future based on retained earnings balances calculated without giving effect to the impact of purchase accounting adjustments for the acquisition of LKE by PPL. In May 2012, the FERC approved the petitions with the further condition that each utility may not pay dividends if such payment would cause its adjusted equity ratio to fall below 30% of total capitalization. Accordingly, at December 31, 2018, net assets of \$2.8 billion (\$1.2 billion for LG&E and \$1.6 billion for KU) were restricted for purposes of paying dividends to LKE, and net assets of \$3.3 billion (\$1.5 billion for LG&E and \$1.8 billion for KU) were available for payment of dividends to LKE. LG&E and KU believe they will not be required to change their current dividend practices as a result of the foregoing requirement. In addition, under Virginia law, KU is prohibited from making loans to affiliates without the prior approval of the VSCC. There are no comparable statutes under Kentucky law applicable to LG&E and KU, or under Pennsylvania law applicable to PPL Electric. However, orders from the KPSC require LG&E and KU to obtain prior consent or approval before lending amounts to PPL.

9. Leases

(PPL, LKE, LG&E and KU)

PPL and its subsidiaries have entered into various agreements for the lease of office space, vehicles, land, gas storage and other equipment.

Rent - Operating Leases

Rent expense for the years ended December 31 for operating leases was as follows:

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	2018	2017	2016
PPL	\$ 45	\$ 45	\$ 50
LKE	29	26	26
LG&E	16	15	15
KU	12	11	11

Total future minimum rental payments for all operating leases are estimated to be:

	PPL	LKE	LG&E	KU
2019	\$ 26	\$ 20	\$ 10	\$ 10
2020	21	15	6	9
2021	15	11	4	7
2022	13	7	3	4
2023	8	6	3	3
Thereafter	33	11	4	6
Total	\$ 116	\$ 70	\$ 30	\$ 39

10. Stock-Based Compensation

(PPL, PPL Electric and LKE)

Under the ICP, SIP and the ICPKE (together, the Plans), restricted shares of PPL common stock, restricted stock units, performance units and stock options may be granted to officers and other key employees of PPL, PPL Electric, LKE and other affiliated companies. Awards under the Plans are made by the Compensation, Governance and Nominating Committee (CGNC) of the PPL Board of Directors, in the case of the ICP and SIP, and by the PPL Corporate Leadership Council (CLC), in the case of the ICPKE.

The following table details the award limits under each of the Plans.

Plan	Total Plan Award Limit (Shares)	Annual Grant Limit Total As % of Outstanding PPL Common Stock On First Day of Each Calendar Year	Annual Grant Limit Options (Shares)	Annual Grant Limit For Individual Participants - Performance Based Awards	
				For awards denominated in shares (Shares)	For awards denominated in cash (in dollars)
SIP	15,000,000		2,000,000	750,000	\$ 15,000,000
ICPKE	14,199,796	2%	3,000,000		

Any portion of these awards that has not been granted may be carried over and used in any subsequent year. If any award lapses, the rights of the participant terminate, or, with respect to certain awards, is forfeited, the shares of PPL common stock underlying such an award are again available for grant. Shares delivered under the Plans may be in the form of authorized and unissued PPL common stock, common stock held in treasury by PPL or PPL common stock purchased on the open market (including private purchases) in accordance with applicable securities laws.

Restricted Stock Units

Restricted stock units are awards based on the fair value of PPL common stock on the date of grant. Actual PPL common shares will be issued upon completion of a restriction period, generally three years.

Under the SIP, each restricted stock unit entitles the executive to accrue additional restricted stock units equal to the amount of quarterly dividends paid on PPL stock. These additional restricted stock units are deferred and payable in shares of PPL common stock at the end of the restriction period. Dividend equivalents on restricted stock unit awards granted under the ICPKE are currently paid in cash when dividends are declared by PPL.

The fair value of restricted stock units granted is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value of restricted stock units granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. Recipients of restricted stock units granted under the ICPKE may also be granted the right to receive dividend equivalents through the end of the restriction period or until the award is forfeited. Restricted stock units are subject to forfeiture or accelerated payout under the plan provisions for

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mination, retirement, disability and death of employees. Restrictions lapse on restricted stock units fully, in certain situations, as defined by each of the plans.

The weighted-average grant date fair value of restricted stock units granted was:

	2018	2017	2016
PPL	\$ 30.58	\$ 35.30	\$ 33.84
PPL Electric	30.00	35.45	34.32
LKE	30.98	35.25	33.73

Restricted stock unit activity for 2018 was:

	Restricted Shares/Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	1,291,649	\$ 34.07
Granted	369,308	30.58
Vested	(529,263)	32.97
Forfeited	(33,491)	33.30
Nonvested, end of period (a)	1,098,203	33.45

PPL Electric		
Nonvested, beginning of period	184,416	\$ 34.20
Transfer between registrants	(2,906)	33.95
Granted	76,051	30.00
Vested	(56,352)	32.39
Forfeited	(13,872)	33.50
Nonvested, end of period	187,337	33.09

LKE		
Nonvested, beginning of period	231,557	\$ 34.01
Transfer between registrants	(1,284)	33.98
Granted	58,377	30.98
Vested	(154,606)	33.38
Forfeited	(1,014)	29.52
Nonvested, end of period	133,030	33.45

(a) Excludes 45,298 restricted stock units for which restrictions lapsed for former PPL Energy Supply employees as a result of the June 2015 spinoff, but for which distribution will not occur until the end of the original restriction period of the awards.

Substantially all restricted stock unit awards are expected to vest.

The total fair value of restricted stock units vesting for the years ended December 31 was:

	2018	2017	2016
PPL	\$ 16	\$ 20	\$ 30
PPL Electric	2	3	3
LKE	5	4	5

Performance Units - Total Shareowner Return

Performance units based on relative Total Shareowner Return (TSR) are intended to encourage and reward future corporate performance. Performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable performance goal. Performance is determined based on TSR during a three-year performance period. At the end of the period, payout is determined by comparing PPL's performance to the TSR of the companies included in the Philadelphia Stock Exchange Utility Index. Awards are payable on a graduated basis based on

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thresholds that measure PPL's performance relative to peers that comprise the applicable index on which each year's awards are measured. Awards can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, TSR performance units are subject to forfeiture upon termination of employment except for retirement, one year or more from commencement of the performance period, disability or death of an employee.

The fair value of TSR performance units granted to retirement-eligible employees is recognized as compensation expense on a straight-line basis over a one-year period, the minimum vesting period required for an employee to be entitled to payout of the awards with no proration. For employees who are not retirement-eligible, compensation expense is recognized over the shorter of the three-year performance period or the period until the employee is retirement-eligible, with a minimum vesting and recognition period of one-year. If an employee retires before the one-year vesting period, the performance units are forfeited. Performance units vest on a pro rata basis, in certain situations, as defined by each of the Plans.

The fair value of each performance unit granted was estimated using a Monte Carlo pricing model that considers stock beta, a risk-free interest rate, expected stock volatility and expected life. The stock beta was calculated comparing the risk of the individual securities to the average risk of the companies in the index group. The risk-free interest rate reflects the yield on a U.S. Treasury bond commensurate with the expected life of the performance unit. Volatility over the expected term of the performance unit is calculated using daily stock price observations for PPL and all companies in the index group and is evaluated with consideration given to prior periods that may need to be excluded based on events not likely to recur that had impacted PPL and the companies in the index group. PPL uses a mix of historic and implied volatility to value awards.

The weighted-average assumptions used in the model were:

	2018	2017	2016
Expected stock volatility	17.60%	17.40%	19.60%
Expected life	3 years	3 years	3 years

The weighted-average grant date fair value of TSR performance units granted was:

	2018	2017	2016
PPL	\$ 38.26	\$ 38.38	\$ 35.74
PPL Electric	38.37	38.37	35.68
PE	38.32	38.24	35.28

TSR performance unit activity for 2018 was:

	TSR Performance Units	Weighted-Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	978,231	\$ 36.67
Granted	263,593	38.26
Vested	(89,015)	34.78
Forfeited (a)	(312,685)	35.26
Nonvested, end of period	840,124	37.89
PPL Electric		
Nonvested, beginning of period	75,513	\$ 37.00
Granted	22,394	38.37
Vested	(5,817)	35.34
Forfeited (a)	(24,227)	36.27
Nonvested, end of period	67,863	37.86

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	TSR Performance Units	Weighted- Average Grant Date Fair Value Per Share
LKE		
Nonvested, beginning of period	180,289	\$ 36.69
Granted	53,961	38.32
Vested	(14,547)	35.04
Forfeited (a)	(70,707)	35.91
Nonvested, end of period	148,996	37.81

(a) Primarily related to the forfeiture of 2015 performance units as performance during the period was below the minimum established performance threshold, which resulted in no payout.

The total fair value of TSR performance units vesting for the year ended December 31, 2018, 2017 and 2016 was \$3 million, \$8 million and \$12 million for PPL and insignificant for PPL Electric and LKE.

Performance Units - Return on Equity

Beginning in 2017, PPL changed its executive compensation mix to add performance units based on achievement of a corporate Return on Equity (ROE). ROE performance units are intended to further align compensation with the company's strategy and reward for future corporate performance.

Payout of these performance units will be based on the calculated average of the annual corporate ROE for each year of the three-year performance period for PPL Corporation. ROE performance units represent a target number of shares (Target Award) of PPL's common stock that the recipient would receive upon PPL's attainment of the applicable ROE performance goal. ROE performance units can be paid up to 200% of the Target Award or forfeited with no payout if performance is below a minimum established performance threshold. Dividends payable during the performance cycle accumulate and are converted into additional performance units and are payable in shares of PPL common stock upon completion of the performance period based on the determination of the CGNC of whether the performance goals have been achieved. Under the plan provisions, these performance units are subject to forfeiture upon termination of employment except for retirement, disability or death of an employee.

The fair value of each ROE performance unit is based on the closing price of PPL Common Stock on the date of grant. The fair value of ROE performance units is recognized on a straight-line basis over the service period or through the date at which the employee reaches retirement eligibility. The fair value awards granted to retirement-eligible employees is recognized as compensation expense immediately upon the date of grant. As these awards are based on performance conditions, the level of attainment is monitored each reporting period and compensation expense is adjusted based on the expected attainment level.

The weighted-average grant date fair value of ROE performance units granted was:

	2018	2017
PPL	\$ 32.21	\$ 32.42
PPL Electric	32.32	34.41
LKE	32.28	34.29

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ROE performance unit activity for 2018 was:

	ROE Performance Unit	Weighted- Average Grant Date Fair Value Per Share
PPL		
Nonvested, beginning of period	96,928	\$ 34.42
Granted	234,664	32.21
Forfeited	(2,634)	32.96
Nonvested, end of period	<u>328,958</u>	<u>32.86</u>
PPL Electric		
Nonvested, beginning of period	8,696	\$ 34.41
Granted	19,899	32.32
Forfeited	(2,635)	32.96
Nonvested, end of period	<u>25,960</u>	<u>32.96</u>
LKE		
Nonvested, beginning of period	20,539	\$ 34.29
Granted	49,081	32.28
Nonvested, end of period	<u>69,620</u>	<u>32.87</u>

Stock Options

PPL's CGNC eliminated the use of stock options due to changes in its long-term incentive mix beginning in January 2014.

Under the Plans, stock options had been granted with an option exercise price per share not less than the fair value of PPL's common stock on the date of grant. Options outstanding at December 31, 2018, are fully vested. All options expire no later than 10 years from the grant date. The options become exercisable immediately in certain situations, as defined by each of the Plans.

Stock option activity for 2018 was:

	Number of Options	Weighted Average Exercise Price Per Share	Weighted- Average Remaining Contractual Term (years)	Aggregate Total Intrinsic Value
PPL				
Outstanding at beginning of period	3,762,183	\$ 29.42		
Exercised	(151,750)	28.43		
Forfeited	(695,908)	42.87		
Outstanding and exercisable at end of period	<u>2,914,525</u>	26.26	3.4	\$ 6

For 2018, 2017 and 2016, PPL received \$5 million, \$19 million and \$52 million in cash from stock options exercised. The related income tax benefits realized were not significant.

The total intrinsic value of stock options exercised for 2018 was insignificant and was \$8 million and \$18 million for 2017 and 2016.

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Compensation Expense

Compensation expense for restricted stock, restricted stock units, performance units and stock options accounted for as equity awards, which for PPL Electric and LKE includes an allocation of PPL Services' expense, was:

	2018	2017	2016
PPL	\$ 25	\$ 32	\$ 27
PPL Electric	10	18	16
LKE	8	8	7

The income tax benefit related to above compensation expense was as follows:

	2018	2017	2016
PPL	\$ 10	\$ 13	\$ 12
PPL Electric	3	8	7
LKE	2	3	3

At December 31, 2018, unrecognized compensation expense related to nonvested stock awards was:

	Unrecognized Compensation Expense	Weighted-Average Period for Recognition
PPL	\$ 10	1.6
PPL Electric	2	1.7
LKE	1	1.4

11. Retirement and Postemployment Benefits

(All Registrants)

Defined Benefits

Certain employees of PPL's domestic subsidiaries are eligible for pension benefits under non-contributory defined benefit pension plans with benefits based on length of service and final average pay, as defined by the plans. Effective January 1, 2012, PPL's primary defined benefit pension plan was closed to all newly hired salaried employees. Effective July 1, 2014, PPL's primary defined benefit pension plan was closed to all newly hired bargaining unit employees. Newly hired employees are eligible to participate in the PPL Retirement Savings Plan, a 401(k) savings plan with enhanced employer contributions.

The defined benefit pension plans of LKE and its subsidiaries were closed to new salaried and bargaining unit employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

Effective April 1, 2010, the principal defined benefit pension plan applicable to WPD (South West) and WPD (South Wales) was closed to most new employees, except for those meeting specific grandfathered participation rights. WPD Midlands' defined benefit plan had been closed to new members, except for those meeting specific grandfathered participation rights, prior to acquisition. New employees not eligible to participate in the plans are offered benefits under a defined contribution plan.

PPL and certain of its subsidiaries also provide supplemental retirement benefits to executives and other key management employees through unfunded nonqualified retirement plans.

Certain employees of PPL's domestic subsidiaries are eligible for certain health care and life insurance benefits upon retirement through contributory plans. Effective January 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired salaried employees. Effective July 1, 2014, the PPL Postretirement Medical Plan was closed to all newly hired bargaining unit employees. Postretirement health benefits may be paid from 401(h) accounts established as part of the PPL Retirement Plan and the LG&E and KU Retirement Plan within the PPL Services Corporation Master Trust, funded VEBA trusts and company funds. WPD does not sponsor any postretirement benefit plans other than pensions.

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PL)

The following table provides the components of net periodic defined benefit costs (credits) for PPL's domestic (U.S.) and WPD's (U.K.) pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Net periodic defined benefit costs (credits):									
Service cost	\$ 62	\$ 65	\$ 66	\$ 82	\$ 76	\$ 69	\$ 7	\$ 7	\$ 7
Interest cost	156	168	174	185	178	235	21	23	26
Expected return on plan assets	(249)	(231)	(228)	(587)	(514)	(504)	(23)	(22)	(22)
Amortization of:									
Prior service cost (credit)	10	10	8	—	—	—	(1)	(1)	—
Actuarial (gain) loss	84	69	50	151	144	138	—	1	1
Net periodic defined benefit costs (credits) prior to settlements and termination benefits	63	81	70	(169)	(116)	(62)	4	8	12
Settlements	—	1	3	—	—	—	—	—	—
Termination benefits	—	1	—	—	—	—	—	—	—
Net periodic defined benefit costs (credits)	\$ 63	\$ 83	\$ 73	\$ (169)	\$ (116)	\$ (62)	\$ 4	\$ 8	\$ 12
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:									
Settlement	—	(1)	(3)	—	—	—	—	—	—
Net (gain) loss	157	27	253	201	346	7	8	(28)	9
Prior service cost (credit)	1	(1)	15	13	—	—	—	8	—
Amortization of:									
Prior service (cost) credit	(10)	(10)	(8)	—	—	—	1	1	(1)
Actuarial gain (loss)	(84)	(69)	(50)	(151)	(144)	(138)	—	(1)	(1)
Total recognized in OCI and regulatory assets/liabilities (a)	64	(54)	207	63	202	(131)	9	(20)	7
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities (a)	\$ 127	\$ 29	\$ 280	\$ (106)	\$ 86	\$ (193)	\$ 13	\$ (12)	\$ 19

(a) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP. As a result, WPD does not record regulatory assets/liabilities.

For PPL's U.S. pension benefits and for other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	U.S. Pension Benefits			Other Postretirement Benefits		
	2018	2017	2016	2018	2017	2016
OCI	\$ 90	\$ (53)	\$ 236	\$ 20	\$ (25)	\$ 7
Regulatory assets/liabilities	(26)	(1)	(29)	(11)	5	—
Total recognized in OCI and regulatory assets/liabilities	\$ 64	\$ (54)	\$ 207	\$ 9	\$ (20)	\$ 7

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KE)

The following table provides the components of net periodic defined benefit costs for LKE's pension and other postretirement benefit plans for the years ended December 31.

	Pension Benefits			Other Postretirement Benefits		
	2018	2017	2016	2018	2017	2016
Net periodic defined benefit costs (credits):						
Service cost	\$ 25	\$ 24	\$ 23	\$ 4	\$ 4	\$ 5
Interest cost	63	68	71	8	9	9
Expected return on plan assets	(102)	(92)	(91)	(9)	(7)	(6)
Amortization of:						
Prior service cost	9	8	8	1	1	3
Actuarial (gain) loss (a)	35	31	21	—	—	(1)
Net periodic defined benefit costs (b)	\$ 30	\$ 39	\$ 32	\$ 4	\$ 7	\$ 10
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:						
Net (gain) loss	\$ 40	\$ 30	\$ 119	\$ 1	\$ (14)	\$ 6
Prior service cost	—	7	—	—	8	—
Amortization of:						
Prior service credit	(9)	(8)	(8)	(1)	(1)	(3)
Actuarial gain (loss)	(35)	(32)	(21)	—	—	1
Total recognized in OCI and regulatory assets/liabilities	(4)	(3)	90	—	(7)	4
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	\$ 26	\$ 36	\$ 122	\$ 4	\$ —	\$ 14

- (a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LKE's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was \$11 million in 2018 and 2017 and \$6 million in 2016.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$6 million in 2018 and \$5 million in 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.

For LKE's pension and other postretirement benefits, the amounts recognized in OCI and regulatory assets/liabilities for the years ended December 31 were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2018	2017	2016	2018	2017	2016
OCI	\$ (25)	\$ 33	\$ 42	\$ 4	\$ (2)	\$ 2
Regulatory assets/liabilities	21	(36)	48	(4)	(5)	2
Total recognized in OCI and regulatory assets/liabilities	\$ (4)	\$ (3)	\$ 90	\$ —	\$ (7)	\$ 4

(LG&E)

The following table provides the components of net periodic defined benefit costs for LG&E's pension benefit plan for the years ended December 31.

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	Pension Benefits		
	2018	2017	2016
Net periodic defined benefit costs (credits):			
Service cost	\$ 1	\$ 1	\$ 1
Interest cost	12	13	15
Expected return on plan assets	(22)	(22)	(21)
Amortization of:			
Prior service cost	5	5	4
Actuarial loss (a)	7	9	7
Net periodic defined benefit costs (b)	\$ 3	\$ 6	\$ 6
Other Changes in Plan Assets and Benefit Obligations Recognized in Regulatory Assets - Gross:			
Net (gain) loss	\$ 22	\$ (9)	\$ 22
Prior service cost	—	7	—
Amortization of:			
Prior service credit	(5)	(5)	(4)
Actuarial gain	(7)	(9)	(7)
Total recognized in regulatory assets/liabilities	10	(16)	11
Total recognized in net periodic defined benefit costs and regulatory assets	\$ 13	\$ (10)	\$ 17

- (a) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between actuarial (gain)/loss calculated in accordance with LG&E's pension accounting policy and actuarial (gain)/loss calculated using a 15 year amortization period was \$2 million in 2018, \$7 million in 2017 and \$5 million in 2016.
- (b) Due to the amount of lump sum payment distributions from the LG&E qualified pension plan, a settlement charge of \$6 million in 2018 and \$5 million in 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.

(All Registrants)

The following net periodic defined benefit costs (credits) were charged to expense or regulatory assets, excluding amounts charged to construction and other non-expense accounts. The U.K. pension benefits apply to PPL only.

	Pension Benefits								
	U.S.			U.K.			Other Postretirement Benefits		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
PPL	\$ 40	\$ 59	\$ 53	\$ (226)	\$ (151)	\$ (95)	\$ 2	\$ 5	\$ 7
PPL Electric (a)	4	12	10				(1)	—	1
LKE (b)	21	28	24				3	5	6
LG&E (b)	4	8	8				2	3	3
KU (a) (b)	2	4	5				1	1	2

- (a) PPL Electric and KU do not directly sponsor any defined benefit plans. PPL Electric and KU were allocated these costs of defined benefit plans sponsored by PPL Services (for PPL Electric) and by LKE (for KU), based on their participation in those plans, which management believes are reasonable. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to KU from LKS.
- (b) As a result of the 2014 Kentucky rate case settlement that became effective July 1, 2015, the difference between net periodic defined benefit costs calculated in accordance with LKE's, LG&E's and KU's pension accounting policy and the net periodic defined benefit costs calculated using a 15 year amortization period for gains and losses is recorded as a regulatory asset. Of the costs charged to Other operation and maintenance, Other Income (Expense) - net or regulatory assets, excluding amounts charged to construction and other non-expense accounts, \$3 million for LG&E and \$2 million for KU were recorded as regulatory assets in 2018, \$4 million for LG&E and \$2 million for KU were recorded as regulatory assets in 2017 and \$3 million for LG&E and \$2 million for KU were recorded as regulatory assets in 2016.

In the table above, LG&E amounts include costs for the specific plans it sponsors and the following allocated costs of defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable:

	Pension Benefits			Other Postretirement Benefits		
	2018	2017	2016	2018	2017	2016
LG&E Non-Union Only	\$ 2	\$ 5	\$ 4	\$ 2	\$ 3	\$ 3

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PPL, LKE and LG&E)

PPL, LKE and LG&E use the base mortality tables issued by the Society of Actuaries in October 2014 (RP-2014 base tables with collar and factor adjustments, where applicable) for all U.S. defined benefit pension and other postretirement benefit plans. For 2016, PPL, LKE and LG&E estimated projected mortality improvements using the IRS BB-2D two-dimensional improvement scale on a generational basis for all U.S. defined benefit pension and other postretirement benefit plans. In 2017, PPL, LKE and LG&E updated to the MP-2017 mortality improvement scale from 2006 on a generational basis and continue to use this improvement scale in 2018.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits	
	U.S.		U.K.					
	2018	2017	2018	2017	2018	2017		
PPL								
Discount rate	4.35%	3.70%	2.98%	2.65%	4.31%	3.64%		
Rate of compensation increase	3.79%	3.78%	3.50%	3.50%	3.76%	3.75%		
LKE								
Discount rate	4.35%	3.69%			4.32%	3.65%		
Rate of compensation increase	3.50%	3.50%			3.50%	3.50%		
LG&E								
Discount rate	4.33%	3.65%						

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31. The U.K. pension benefits apply to PPL only.

	Pension Benefits						Other Postretirement Benefits		
	U.S.			U.K.					
	2018	2017	2016	2018	2017	2016	2018	2017	2016
PPL									
Discount rate service cost	3.70%	4.21%	4.59%	2.73%	2.99%	3.90%	3.64%	4.11%	4.48%
Discount rate interest cost	3.70%	4.21%	4.59%	2.31%	2.41%	3.14%	3.64%	4.11%	4.48%
Rate of compensation increase	3.78%	3.95%	3.93%	3.50%	3.50%	4.00%	3.75%	3.92%	3.91%
Expected return on plan assets	7.25%	7.00%	7.00%	7.23%	7.22%	7.20%	6.40%	6.21%	6.11%
LKE									
Discount rate	3.69%	4.19%	4.56%				3.65%	4.12%	4.49%
Rate of compensation increase	3.50%	3.50%	3.50%				3.50%	3.50%	3.50%
Expected return on plan assets (a)	7.25%	7.00%	7.00%				7.15%	6.82%	6.82%
LG&E									
Discount rate	3.65%	4.13%	4.49%						
Expected return on plan assets (a)	7.25%	7.00%	7.00%						

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

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(PL and LKE)

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2018	2017	2016
PPL and LKE			
Health care cost trend rate assumed for next year			
- obligations	6.6%	6.6%	7.0%
- cost	6.6%	7.0%	6.8%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			
- obligations	5.0%	5.0%	5.0%
- cost	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate			
- obligations	2023	2022	2022
- cost	2022	2022	2020

(PPL)

The funded status of PPL's plans at December 31 was as follows:

	Pension Benefits					
	U.S.		U.K.		Other Postretirement Benefits	
	2018	2017	2018	2017	2018	2017
Change in Benefit Obligation						
Benefit Obligation, beginning of period	\$ 4,288	\$ 4,079	\$ 8,219	\$ 7,383	\$ 589	\$ 591
Service cost	62	65	82	76	7	7
Interest cost	156	168	185	178	21	23
Participant contributions	—	—	13	13	13	14
Plan amendments	1	(1)	12	—	—	8
Actuarial (gain) loss	(352)	233	(406)	293	(34)	4
Settlements	—	(6)	—	(1)	—	—
Termination benefits	—	1	—	—	—	—
Gross benefits paid	(272)	(251)	(381)	(345)	(58)	(59)
Federal subsidy	—	—	—	—	—	1
Currency conversion	—	—	(449)	622	—	—
Benefit Obligation, end of period	3,883	4,288	7,275	8,219	538	589
Change in Plan Assets						
Plan assets at fair value, beginning of period	3,488	3,243	8,490	7,211	405	378
Actual return on plan assets	(260)	437	(30)	480	(20)	54
Employer contributions	153	65	188	486	23	15
Participant contributions	—	—	13	13	11	13
Transfer out (a)	—	—	—	—	(65)	—
Settlements	—	(6)	—	(1)	—	—
Gross benefits paid	(272)	(251)	(381)	(345)	(53)	(55)
Currency conversion	—	—	(479)	646	—	—
Plan assets at fair value, end of period	3,109	3,488	7,801	8,490	301	405
Funded Status, end of period	\$ (774)	\$ (800)	\$ 526	\$ 271	\$ (237)	\$ (184)
Amounts recognized in the Balance Sheets consist of:						
Noncurrent asset	\$ —	\$ —	\$ 535	\$ 284	\$ 2	\$ 2
Current liability	(13)	(13)	(1)	—	(3)	(3)
Noncurrent liability	(761)	(787)	(8)	(13)	(236)	(183)
Net amount recognized, end of period	\$ (774)	\$ (800)	\$ 526	\$ 271	\$ (237)	\$ (184)

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	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.		2018	2017
	2018	2017	2018	2017		
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:						
Prior service cost (credit)	\$ 40	\$ 49	\$ 12	\$ —	\$ 10	\$ 9
Net actuarial (gain) loss	1,207	1,134	2,806	2,755	24	16
Total (b)	\$ 1,247	\$ 1,183	\$ 2,818	\$ 2,755	\$ 34	\$ 25
Total accumulated benefit obligation for defined benefit pension plans	\$ 3,668	\$ 4,000	\$ 6,689	\$ 7,542		

- (a) In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA to be used to pay medical claims of active bargaining unit employees.
- (b) WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP and as a result, does not record regulatory assets/liabilities.

For PPL's U.S. pension and other postretirement benefit plans, the amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	U.S. Pension Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
AOCI	\$ 370	\$ 374	\$ 21	\$ 15
Regulatory assets/liabilities	877	809	13	10
Total	\$ 1,247	\$ 1,183	\$ 34	\$ 25

The actuarial (gain) loss for all pension plans in 2018 and 2017 was primarily related to a change in the discount rate used to measure the benefit obligations of those plans.

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligation (ABO) exceed the fair value of plan assets:

	U.S.		U.K.	
	PBO in excess of plan assets		PBO in excess of plan assets	
	2018	2017	2018	2017
Projected benefit obligation	\$ 3,883	\$ 4,288	\$ 9	\$ 3,083
Fair value of plan assets	3,109	3,488	—	3,070

	U.S.		U.K.	
	ABO in excess of plan assets		ABO in excess of plan assets	
	2018	2017	2018	2017
Accumulated benefit obligation	\$ 3,668	\$ 4,000	\$ 9	\$ 10
Fair value of plan assets	3,109	3,488	—	—

(LKE)

The funded status of LKE's plans at December 31 was as follows:

	Pension Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
Change in Benefit Obligation				
Benefit Obligation, beginning of period	\$ 1,771	\$ 1,669	\$ 223	\$ 220
Service cost	25	24	4	4
Interest cost	63	68	8	9
Participant contributions	—	—	8	8
Plan amendments (a)	—	6	—	8
Actuarial (gain) loss (b)	(168)	113	(16)	(7)
Gross benefits paid (a)	(111)	(109)	(22)	(19)
Benefit Obligation, end of period	1,580	1,771	205	223

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	Pension Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
Change in Plan Assets				
Plan assets at fair value, beginning of period	1,402	1,315	116	98
Actual return on plan assets	(106)	175	(9)	14
Employer contributions	109	21	24	15
Participant contributions	—	—	8	8
Gross benefits paid	(111)	(109)	(22)	(19)
Plan assets at fair value, end of period	1,294	1,402	117	116
Funded Status, end of period	\$ (286)	\$ (369)	\$ (88)	\$ (107)
Amounts recognized in the Balance Sheets consist of:				
Noncurrent asset	\$ —	\$ —	\$ 2	\$ 2
Current liability	(4)	(4)	(3)	(3)
Noncurrent liability	(282)	(365)	(87)	(106)
Net amount recognized, end of period	\$ (286)	\$ (369)	\$ (88)	\$ (107)
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Prior service cost	\$ 35	\$ 44	\$ 12	\$ 13
Net actuarial (gain) loss	439	434	(25)	(26)
Total	\$ 474	\$ 478	\$ (13)	\$ (13)
Total accumulated benefit obligation for defined benefit pension plans	\$ 1,467	\$ 1,616		

- (a) The pension plans were amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. Gross benefits paid by the plans include lump-sum cash payments made to participants during 2018 and 2017 of \$52 million and \$50 million in connection with these offerings.
- (b) The actuarial (gain) loss for all pension plans in 2018 and 2017 was primarily related to change in the discount rate used to measure the benefit obligations of those plans.

The amounts recognized in AOCI and regulatory assets/liabilities at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2018	2017	2018	2017
AOCI	\$ 118	\$ 144	\$ 10	\$ 6
Regulatory assets/liabilities	356	334	(23)	(19)
Total	\$ 474	\$ 478	\$ (13)	\$ (13)

The following tables provide information on pension plans where the projected benefit obligation (PBO) or accumulated benefit obligations (ABO) exceed the fair value of plan assets:

	PBO in excess of plan assets	
	2018	2017
Projected benefit obligation	\$ 1,580	\$ 1,771
Fair value of plan assets	1,294	1,402
ABO in excess of plan assets		
	2018	2017
Accumulated benefit obligation	\$ 1,467	\$ 1,616
Fair value of plan assets	1,294	1,402

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(G&E)

The funded status of LG&E's plan at December 31, was as follows:

	Pension Benefits	
	2018	2017
Change in Benefit Obligation		
Benefit Obligation, beginning of period	\$ 326	\$ 329
Service cost	1	1
Interest cost	12	13
Plan amendments (a)	—	6
Actuarial (gain) loss	(24)	11
Gross benefits paid (a)	(30)	(34)
Benefit Obligation, end of period	285	326
Change in Plan Assets		
Plan assets at fair value, beginning of period	325	318
Actual return on plan assets	(24)	41
Employer contributions	10	—
Gross benefits paid	(30)	(34)
Plan assets at fair value, end of period	281	325
Funded Status, end of period	\$ (4)	\$ (1)
Amounts recognized in the Balance Sheets consist of:		
Noncurrent liability	\$ (4)	\$ (1)
Net amount recognized, end of period	\$ (4)	\$ (1)
Amounts recognized in regulatory assets (pre-tax) consist of:		
Prior service cost	\$ 22	\$ 27
Net actuarial loss	107	92
Total	\$ 129	\$ 119
Total accumulated benefit obligation for defined benefit pension plan	\$ 285	\$ 326

(a) The pension plan was amended in December 2015 to allow active participants and terminated vested participants who had not previously elected a form of payment of their benefit to elect to receive their accrued pension benefit as a one-time lump-sum payment effective January 1, 2016. Gross benefits paid by the plan include lump-sum cash payments made to participants during 2018 and 2017 of \$16 million and \$19 million in connection with this offering.

LG&E's pension plan had projected and accumulated benefit obligations in excess of plan assets at December 31, 2018 and 2017.

In addition to the plan it sponsors, LG&E is allocated a portion of the funded status and costs of certain defined benefit plans sponsored by LKE. LG&E is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to LG&E from LKS. These allocations are based on LG&E's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to LG&E resulted in liabilities at December 31 as follows:

	2018	2017
Pension	\$ 7	\$ 44
Other postretirement benefits	65	74

(PPL Electric)

Although PPL Electric does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by PPL services based on its participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retirees are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to PPL Electric resulted in liabilities at December 31 as follows:

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	2018	2017
Pension	\$ 285	\$ 246
Other postretirement benefits	120	62

(KU)

Although KU does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE. KU is also allocated costs of defined benefit plans from LKS for defined benefit plans sponsored by LKE. See Note 14 for additional information on costs allocated to KU from LKS. These allocations are based on KU's participation in those plans, which management believes are reasonable. The actuarially determined obligations of current active employees and retired employees of KU are used as a basis to allocate total plan activity, including active and retiree costs and obligations. Allocations to KU resulted in liabilities at December 31 as follows.

	2018	2017
Pension	\$ 1	\$ 36
Other postretirement benefits	25	32

Plan Assets - U.S. Pension Plans

(PPL, LKE and LG&E)

PPL's primary legacy pension plan and the pension plans sponsored by LKE and LG&E are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations of PPL and LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines as of the end of 2018 are presented below.

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The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

	Percentage of trust assets		2018
	2018 (a)	2017 (a)	Target Asset Allocation (a)
Growth Portfolio	55%	56%	55%
Equity securities	30%	32%	
Debt securities (b)	15%	14%	
Alternative investments	10%	10%	
Immunizing Portfolio	43%	43%	43%
Debt securities (b)	39%	39%	
Derivatives	4%	4%	
Liquidity Portfolio	2%	1%	2%
Total	100%	100%	100%

(a) Allocations exclude consideration of a group annuity contract held by the LG&E and KU Retirement Plan.

(b) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.

(LKE)

LKE has pension plans, including LG&E's plan, whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of these plans' assets of \$1.3 billion and \$1.4 billion at December 31, 2018 and 2017 represents an interest of approximately 42% and 40% in the Master Trust.

(LG&E)

LG&E has a pension plan whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of this plan's assets of \$281 million and \$325 million at December 31, 2018 and 2017 represents an interest of approximately 9% in the Master Trust.

(PPL, LKE and LG&E)

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

	December 31, 2018				December 31, 2017			
	Total	Fair Value Measurements Using			Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	\$ 220	\$ 220	\$ —	\$ —	\$ 301	\$ 301	\$ —	\$ —
Equity securities:								
U.S. Equity	159	159	—	—	229	229	—	—
U.S. Equity fund measured at NAV (a)	340	—	—	—	364	—	—	—
International equity fund at NAV (a)	466	—	—	—	538	—	—	—
Commingled debt measured at NAV (a)	543	—	—	—	611	—	—	—
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	212	212	—	—	186	186	—	—
Corporate	899	—	874	25	883	—	870	13
Other	17	—	17	—	10	—	10	—
Alternative investments:								
Real estate measured at NAV (a)	90	—	—	—	109	—	—	—
Private equity measured at NAV (a)	65	—	—	—	80	—	—	—
Hedge funds measured at NAV (a)	175	—	—	—	175	—	—	—

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	December 31, 2018				December 31, 2017			
	Total	Fair Value Measurements Using			Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Derivatives	33	—	33	—	51	—	51	—
Insurance contracts	21	—	—	21	24	—	—	24
PPL Services Corporation Master Trust assets, at fair value	3,240	\$ 591	\$ 924	\$ 46	3,561	\$ 716	\$ 931	\$ 37
Receivables and payables, net (b)	(2)				72			
401(h) accounts restricted for other postretirement benefit obligations	(129)				(145)			
Total PPL Services Corporation Master Trust pension assets	<u>\$ 3,109</u>				<u>\$ 3,488</u>			

- (a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
- (b) Receivables and payables, net represents amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2018 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	\$ 13	\$ 24	\$ 37
Actual return on plan assets			
Relating to assets still held at the reporting date	(2)	1	(1)
Relating to assets sold during the period	3	—	3
Purchases, sales and settlements	11	(4)	7
Balance at end of period	<u>\$ 25</u>	<u>\$ 21</u>	<u>\$ 46</u>

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2017 is as follows:

	Corporate debt	Insurance contracts	Total
Balance at beginning of period	\$ 13	\$ 27	\$ 40
Actual return on plan assets			
Relating to assets still held at the reporting date	—	1	1
Purchases, sales and settlements	—	(4)	(4)
Balance at end of period	<u>\$ 13</u>	<u>\$ 24</u>	<u>\$ 37</u>

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

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Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The strategy is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. The partnerships have limited lives of at least 10 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The Master Trust has unfunded commitments of \$71 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in a fund of hedge funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the fund of hedge funds include long/short equity, tactical trading, event driven, and relative value. Shares may be redeemed with 45 days prior written notice. The fund is subject to short term lockups and other restrictions. The fair value for the fund has been estimated using the net asset value per share.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in treasury futures, total return swaps, interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on quoted prices, changes in the value of the underlying exposure or on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

Plan Assets - U.S. Other Postretirement Benefit Plans

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) accounts included in the Master Trust, other postretirement benefit plans are invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. These plans benefit from diversification of asset types, investment fund strategies and investment fund managers and, therefore, have no significant concentration of risk. Equity securities include investments in domestic large-cap commingled funds. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the PPL VEBA trusts, excluding LKE, and the target allocation, by asset class, at December 31 are detailed below.

Asset Class	Percentage of plan assets		Target Asset Allocation
	2018	2017	2018
U.S. Equity securities	40%	47%	45%
Debt securities (a)	56%	49%	50%
Cash and cash equivalents (b)	4%	4%	5%
Total	100%	100%	100%

(a) Includes commingled debt funds and debt securities.
 (b) Includes money market funds.

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WPD's other postretirement benefit plan is invested primarily in a 401(h) account, as disclosed in the PPL Services Corporation Master Trust, with insignificant amounts invested in money market funds within VEBA trusts for liquidity.

The fair value of assets in the U.S. other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2018				December 31, 2017			
	Fair Value Measurement Using				Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Money market funds	\$ 6	\$ 6	\$ —	\$ —	\$ 10	\$ 10	\$ —	\$ —
U.S. Equity securities:								
Large-cap equity fund measure at NAV (a)	69	—	—	—	123	—	—	—
Commingled debt fund measured at NAV (a)	68	—	—	—	96	—	—	—
Debt securities:								
Corporate bonds	28	—	28	—	30	—	30	—
Total VEBA trust assets, at fair value	171	\$ 6	\$ 28	\$ —	259	\$ 10	\$ 30	\$ —
Receivables and payables, net (b)	1				1			
401(h) account assets	129				145			
Total other postretirement benefit plan assets	\$ 301				\$ 405			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in large-cap equity securities represent investments in a passively managed equity index fund that invests in securities and a combination of other collective funds. Fair value measurements are not obtained from a quoted price in an active market but are based on firm quotes of net asset values per share as provided by the trustee of the fund. Redemptions can be made daily on this fund.

Investments in commingled debt securities represent investments in a fund that invests in a diversified portfolio of investment grade long-duration fixed income securities. Redemptions can be made daily on these funds.

Investments in corporate bonds represent investment in a diversified portfolio of investment grade long-duration fixed income securities. The fair value of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences.

Plan Assets - U.K. Pension Plans (PPL)

The overall investment strategy of WPD's pension plans is developed by each plan's independent trustees in its Statement of Investment Principles in compliance with the U.K. Pensions Act of 1995 and other U.K. legislation. The trustees' primary focus is to ensure that assets are sufficient to meet members' benefits as they fall due with a longer term objective to reduce investment risk. The investment strategy is intended to maximize investment returns while not incurring excessive volatility in the funding position. WPD's plans are invested in a wide diversification of asset types, fund strategies and fund managers; and therefore, have no significant concentration of risk. Commingled funds that consist entirely of debt securities are traded as equity units, but treated by WPD as debt securities for asset allocation and target allocation purposes. These include investments in U.K. corporate bonds and U.K. gilts.

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The asset allocation and target allocation at December 31 of WPD's pension plans are detailed below.

Asset Class	Percentage of plan assets		Target Asset
			Allocation
	2018	2017	2018
Cash and cash equivalents	2%	2%	—%
Equity securities			
U.K.	—%	2%	2%
European (excluding the U.K.)	1%	1%	1%
Asian-Pacific	1%	1%	1%
North American	1%	1%	1%
Emerging markets	1%	1%	1%
Global equities	19%	16%	10%
Global Tactical Asset Allocation	31%	33%	41%
Debt securities (a)	38%	37%	38%
Alternative investments	6%	6%	5%
Total	100%	100%	100%

(a) Includes commingled debt funds.

The fair value of assets in the U.K. pension plans by asset class and level within the fair value hierarchy was:

	December 31, 2018				December 31, 2017			
	Total	Fair Value Measurement Using			Total	Fair Value Measurement Using		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 147	\$ 147	\$ —	\$ —	\$ 216	\$ 216	\$ —	\$ —
Equity securities measured at NAV (a):								
U.K. companies	27	—	—	—	157	—	—	—
European companies (excluding the U.K.)	76	—	—	—	98	—	—	—
Asian-Pacific companies	49	—	—	—	60	—	—	—
North American companies	105	—	—	—	123	—	—	—
Emerging markets companies	44	—	—	—	62	—	—	—
Global Equities	1,465	—	—	—	1,335	—	—	—
Other	2,437	—	—	—	2,807	—	—	—
Debt Securities:								
U.K. corporate bonds	4	—	4	—	3	—	3	—
U.K. gilts	2,933	—	2,933	—	3,137	—	3,137	—
Alternative investments:								
Real estate measured at NAV (a)	485	—	—	—	492	—	—	—
Fair value - U.K. pension plans	7,772	\$ 147	\$ 2,937	\$ —	8,490	\$ 216	\$ 3,140	\$ —
Receivables and payables, net (b)	29				—			
Total U.K. pension assets	\$ 7,801				\$ 8,490			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables, net represents amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

Except for investments in real estate, the fair value measurements of WPD's pension plan assets are based on the same inputs and measurement techniques used to measure the U.S. pension plan assets described above.

Investments in equity securities represent actively and passively managed funds that are measured against various equity indices.

Other comprises a range of investment strategies, which invest in a variety of assets including equities, bonds, currencies, real estate and forestry held in diversified funds, which are considered in the Global Tactical Asset Allocation target.

U.K. corporate bonds include investment grade corporate bonds of companies from diversified U.K. industries.

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K. gilts include gilts, index-linked gilts and swaps intended to track a portion of the plans' liabilities.

Investments in real estate represent holdings in a U.K. unitized fund that owns and manages U.K. industrial and commercial real estate with a strategy of earning current rental income and achieving capital growth. The fair value measurement of the fund is based upon a net asset value per share, which is based on the value of underlying properties that are independently appraised in accordance with Royal Institution of Chartered Surveyors valuation standards at least annually with quarterly valuation updates based on recent sales of similar properties, leasing levels, property operations and/or market conditions. The fund may be subject to redemption restrictions in the unlikely event of a large forced sale in order to ensure other unit holders are not disadvantaged.

Expected Cash Flows - U.S. Defined Benefit Plans (PPL)

While PPL's U.S. defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, PPL contributed \$50 million to its U.S. pension plans in January 2019. No additional contributions are expected in 2019.

PPL sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. PPL expects to make approximately \$13 million of benefit payments under these plans in 2019.

PPL is not required to make contributions to its other postretirement benefit plans but has historically funded these plans in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause PPL to contribute \$15 million to its other postretirement benefit plans in 2019.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by PPL.

	Pension	Other Postretirement	
		Benefit Payment	Expected Federal Subsidy
2019	\$ 274	\$ 50	\$ —
2020	266	50	1
2021	265	49	—
2022	265	48	1
2023	264	46	—
2024-2028	1,290	210	1

(LKE)

While LKE's defined benefit pension plans have the option to utilize available prior year credit balances to meet current and future contribution requirements, LKE contributed \$20 million to its pension plans in January 2019. No additional contributions are expected in 2019.

LKE sponsors various non-qualified supplemental pension plans for which no assets are segregated from corporate assets. LKE expects to make \$4 million of benefit payments under these plans in 2019.

LKE is not required to make contributions to its other postretirement benefit plan but has historically funded this plan in amounts equal to the postretirement benefit costs recognized. Continuation of this past practice would cause LKE to contribute a projected \$15 million to its other postretirement benefit plan in 2019.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received by LKE.

	Pension	Other Postretirement	
		Benefit Payment	Expected Federal Subsidy
2019	\$ 112	\$ 15	\$ —
2020	112	15	—
2021	113	16	—
2022	113	16	1
2023	112	16	—
2024-2028	547	78	1

(LG&E)

While LG&E's defined benefit pension plan has the option to utilize available prior year credit balances to meet current and future contribution requirements, LG&E contributed \$1 million to its pension plan in January 2019. No additional contributions are expected in 2019.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plan.

	Pension
2019	\$ 25
2020	25
2021	24
2022	23
2023	22
2024-2028	95

Expected Cash Flows - U.K. Pension Plans (PPL)

The pension plans of WPD are subject to formal actuarial valuations every three years, which are used to determine funding requirements. Contribution requirements were evaluated in accordance with the valuation performed as of March 31, 2016. WPD expects to make contributions of approximately \$277 million in 2019. WPD is currently permitted to recover in current revenues approximately 78% of its pension funding requirements for its primary pension plans.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans.

	Pension
2019	\$ 337
2020	340
2021	344
2022	349
2023	352
2024-2028	1,781

Savings Plans (All Registrants)

Substantially all employees of PPL's subsidiaries are eligible to participate in deferred savings plans (401(k)s). Employer contributions to the plans were:

	2018	2017	2016
PPL	\$ 40	\$ 36	\$ 35
PPL Electric	6	6	6
LKE	20	18	17
LG&E	6	5	5
KU	5	4	4

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Jointly Owned Facilities

(PPL, LKE, LG&E and KU)

At December 31, 2018 and 2017, the Balance Sheets reflect the owned interests in the facilities listed below.

	<u>Ownership Interest</u>	<u>Electric Plant</u>	<u>Accumulated Depreciation</u>	<u>Construction Work in Progress</u>
<u>PPL and LKE</u>				
<u>December 31, 2018</u>				
Generating Plants				
Trimble County Unit 1	75.00%	\$ 427	\$ 77	\$ —
Trimble County Unit 2	75.00%	1,063	199	293
<u>December 31, 2017</u>				
Generating Plants				
Trimble County Unit 1	75.00%	\$ 427	\$ 69	\$ 1
Trimble County Unit 2	75.00%	1,032	176	198
<u>LG&E</u>				
<u>December 31, 2018</u>				
Generating Plants				
E.W. Brown Units 6-7	38.00%	\$ 41	\$ 20	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	51	17	—
Trimble County Unit 1	75.00%	427	77	—
Trimble County Unit 2	14.25%	226	39	152
Trimble County Units 5-6	29.00%	32	11	—
Trimble County Units 7-10	37.00%	77	24	—
Cane Run Unit 7	22.00%	119	9	—
E.W. Brown Solar Unit	39.00%	10	1	—
<u>December 31, 2017</u>				
Generating Plants				
E.W. Brown Units 6-7	38.00%	\$ 41	\$ 17	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	53.00%	52	15	—
Trimble County Unit 1	75.00%	427	69	1
Trimble County Unit 2	14.25%	215	36	102
Trimble County Units 5-6	29.00%	32	9	—
Trimble County Units 7-10	37.00%	73	21	—
Cane Run Unit 7	22.00%	120	8	1
E.W. Brown Solar Unit	39.00%	10	1	—
<u>KU</u>				
<u>December 31, 2018</u>				
Generating Plants				
E.W. Brown Units 6-7	62.00%	\$ 66	\$ 31	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	46	15	—
Trimble County Unit 2	60.75%	837	160	141
Trimble County Units 5-6	71.00%	76	25	—
Trimble County Units 7-10	63.00%	129	41	—
Cane Run Unit 7	78.00%	428	36	—
E.W. Brown Solar Unit	61.00%	16	2	—

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	Ownership Interest	Electric Plant	Accumulated Depreciation	Construction Work in Progress
December 31, 2017				
Generating Plants				
E.W. Brown Units 6-7	62.00%	\$ 66	\$ 27	\$ —
Paddy's Run Unit 13 & E.W. Brown Unit 5	47.00%	46	13	—
Trimble County Unit 2	60.75%	817	140	96
Trimble County Units 5-6	71.00%	76	20	—
Trimble County Units 7-10	63.00%	120	34	—
Cane Run Unit 7	78.00%	431	31	4
E.W. Brown Solar Unit	61.00%	16	1	—

Each subsidiary owning these interests provides its own funding for its share of the facility. Each receives a portion of the total output of the generating plants equal to its percentage ownership. The share of fuel and other operating costs associated with the plants is included in the corresponding operating expenses on the Statements of Income.

13. Commitments and Contingencies

Energy Purchase Commitments (PPL, LKE, LG&E and KU)

LG&E and KU enter into purchase contracts to supply the coal and natural gas requirements for generation facilities and LG&E's retail natural gas supply operations. These contracts include the following commitments:

Contract Type	Maximum Maturity Date
Natural Gas Fuel	2020
Natural Gas Retail Supply	2020
Coal	2023
Coal Transportation and Fleeting Services	2027
Natural Gas Transportation	2026

LG&E and KU have a power purchase agreement with OVEC expiring in June 2040. See footnote (f) to the table in "Guarantees and Other Assurances" below for information on the OVEC power purchase contract, including recent developments in credit or debt conditions relating to OVEC. Future obligations for power purchases from OVEC are demand payments, comprised of debt-service payments and contractually-required reimbursements of plant operating, maintenance and other expenses, and are projected as follows:

	LG&E	KU	Total
2019	\$ 19	\$ 8	\$ 27
2020	18	8	26
2021	19	8	27
2022	19	8	27
2023	19	8	27
Thereafter	297	133	430
Total	\$ 391	\$ 173	\$ 564

LG&E and KU had total energy purchases under the OVEC power purchase agreement for the years ended December 31 as follows:

	2018	2017	2016
LG&E	\$ 14	\$ 14	\$ 16
KU	6	6	7
Total	\$ 20	\$ 20	\$ 23

Legal Matters

(All Registrants)

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

Talen Litigation (PPL)

Background

In September 2013, PPL Montana entered into an agreement to sell its hydroelectric generating facilities. In June 2014, PPL and PPL Energy Supply entered into various definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and ultimately combine it with Riverstone's competitive power generation businesses to form a stand-alone company named Talen Energy. In November 2014, after executing the spinoff agreements but prior to the closing of the spinoff transaction, PPL Montana closed the sale of its hydroelectric generating facilities. Subsequently, on June 1, 2015, the spinoff of PPL Energy Supply was completed. Following the spinoff transaction, PPL had no continuing ownership interest in or control of PPL Energy Supply. In connection with the spinoff transaction, PPL Montana became Talen Montana, LLC (Talen Montana), a subsidiary of Talen Energy. Talen Energy Marketing became a subsidiary of Talen Energy as a result of the June 2015 spinoff of PPL Energy Supply. Talen Energy has owned and operated both Talen Montana and Talen Energy Marketing since the spinoff. At the time of the spinoff, affiliates of Riverstone acquired a 35% ownership interest in Talen Energy. Riverstone subsequently acquired the remaining interests in Talen Energy in a take private transaction in December 2016.

Talen Montana, LLC v. PPL Corporation et al.

On October 29, 2018, Talen Montana filed a complaint against PPL and certain of its affiliates and current and former officers and directors in the First Judicial District of the State of Montana, Lewis & Clark County (Talen Direct Action). Talen Montana alleges that in November 2014, PPL and certain officers and directors improperly distributed to PPL's subsidiaries \$733 million of the proceeds from the sale of Talen Montana's (then PPL Montana's) hydroelectric generating facilities, rendering PPL Montana insolvent. The complaint includes claims for, among other things, breach of fiduciary duty; aiding and abetting breach of fiduciary duty; breach of an LLC agreement; breach of the implied duty of good faith and fair dealing; tortious interference; negligent misrepresentation; and constructive fraud. Talen Montana is seeking unspecified damages, including punitive damages, and other relief. In December 2018, PPL moved to dismiss the Talen Direct Action for lack of jurisdiction and, in the alternative, to dismiss because Delaware is the appropriate forum to decide this case. In January 2019, Talen Montana dismissed without prejudice all current and former PPL Corporation directors from the case. The parties are proceeding with limited jurisdictional discovery.

Talen Montana Retirement Plan and Talen Energy Marketing, LLC, Individually and on Behalf of All Others Similarly Situated v. PPL Corporation et al.

Also on October 29, 2018, Talen Montana Retirement Plan and Talen Energy Marketing filed a putative class action complaint on behalf of current and contingent creditors of Talen Montana who allegedly suffered harm or allegedly will suffer reasonably foreseeable harm as a result of the November 2014 distribution. The action was filed in the Sixteenth Judicial District of the State of Montana, Rosebud County, against PPL and certain of its affiliates and current and former officers and directors (Talen Putative Class Action). The plaintiffs assert claims for, among other things, fraudulent transfer, both actual and constructive; recovery against subsequent transferees; civil conspiracy; aiding and abetting tortious conduct; and unjust enrichment. They are seeking avoidance of the purportedly fraudulent transfer, unspecified damages, including punitive damages, the imposition of a constructive trust, and other relief. In December 2018, PPL removed the Talen Putative Class Action from the Sixteenth Judicial District of the State of Montana to the United States District Court for the District of Montana, Billings Division. In January 2019, the plaintiffs moved to remand the Talen Putative Class Action back to state court and dismissed without prejudice all current and former PPL Corporation directors from the case. The parties are proceeding with limited jurisdictional discovery in connection with the motion to remand.

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PPL Corporation et al. vs. Riverstone Holdings LLC, Talen Energy Corporation et al.

On November 30, 2018, PPL, certain PPL affiliates, and certain current and former officers and directors (PPL plaintiffs) filed a complaint in the Court of Chancery of the State of Delaware seeking various forms of relief against Riverstone, Talen Energy and certain of their affiliates (Delaware Action). In the complaint, the PPL plaintiffs ask the Delaware Court of Chancery for declaratory and injunctive relief. This includes a declaratory judgment that, under the separation agreement governing the spinoff of PPL Energy Supply, all related claims that arise must be heard in Delaware; that the statute of limitations in Delaware and the spinoff agreement bar these claims at this point; that PPL is not liable for the claims in either the Talen Direct Action or the Talen Putative Class Action as PPL Montana was solvent at all relevant times; and that the separation agreement requires that Talen Energy indemnify PPL for all losses arising from the debts of Talen Montana, among other things. PPL's complaint also seeks damages against Riverstone for interfering with the separation agreement and against Riverstone affiliates for breach of the implied covenant of good faith and fair dealing. In addition, the complaint asks the court to order, on behalf of creditors, the recovery of a \$500 million "special cash dividend" that Riverstone extracted from Talen Energy in December 2017. On January 11, 2019, the PPL plaintiffs filed an amended complaint, adding claims related to indemnification with respect to the Talen Direct Action and the Talen Putative Class Action (together, the Montana Actions) and requested a declaration that the Montana Actions are time-barred under the spinoff agreements. On February 11, 2019, the defendants filed motions to dismiss the amended complaint.

With respect to each of the Talen-related matters described above, PPL believes that the 2014 distribution of proceeds was made in compliance with all applicable laws and that PPL Montana was solvent at all relevant times. Additionally, the agreements entered into in connection with the spinoff, which PPL and affiliates of Talen Energy and Riverstone negotiated and executed prior to the 2014 distribution, directly address the treatment of the proceeds from the sale of PPL Montana's hydroelectric generating facilities; in those agreements, Talen Energy and Riverstone definitively agreed that PPL was entitled to retain the proceeds.

PPL believes that it has meritorious defenses to the claims made in the Montana Actions and intends to vigorously defend against these actions. The Montana Actions and the Delaware Action are all in the early stages of litigation; at this time, PPL cannot predict the outcome of these matters or estimate the range of possible losses, if any, that PPL might incur as a result of the claims, although they could be material.

(PPL, LKE and LG&E)

Cane Run Environmental Claims

In December 2013, six residents, on behalf of themselves and others similarly situated, filed a class action complaint against LG&E and PPL in the U.S. District Court for the Western District of Kentucky (U.S. District Court) alleging violations of the Clean Air Act, RCRA, and common law claims of nuisance, trespass and negligence. 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 be rendered 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.

PPL, LKE and KU

E.W. Brown Environmental Claims

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. 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. On November 27, 2018, the U.S. Court of Appeals for the Sixth Circuit denied KU's petition for rehearing regarding the RCRA claims. On January 8, 2019, KU filed an answer to plaintiffs' complaint in the U.S. District Court.

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 2017 and 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.

(All Registrants)

Regulatory Issues

See Note 7 for information on regulatory matters related to utility rate regulation.

Electricity - Reliability Standards

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

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

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

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

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 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

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quire 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 the 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.

MATS

On December 28, 2018, the EPA proposed to revise its previous finding that regulation of hazardous air emissions from coal- and oil-fired electric generating units is justified and instead find that the agency erred in determining such regulation is "appropriate and necessary" due to mistakes in its regulatory cost-benefit analysis. As a result of its review of relevant precedent, the EPA further proposed not to remove the coal- and oil-fired electric generating unit source category from the list of sources that must be regulated under Section 112 of the Clean Air Act and leave existing emission standards in place. Finally, the EPA proposed to find that the results of its residual risk and technology review indicate that residual risk due to air toxic emissions from this source category is acceptable and current standards provide an ample margin of safety to protect public health. LG&E and KU have completed installation of controls at their plants as necessary to achieve compliance with the applicable provision of MATS. It is not possible to predict the outcome of the pending regulatory proceedings including whether existing standards may be repealed, or the resulting impacts on plant operations, financial condition or results of operations.

Climate Change

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

In December 2015, 195 nations, including the U.S., signed the Paris Agreement on Climate, which establishes a comprehensive framework for the reduction of GHG emissions from both developed and developing nations. Although the agreement does not establish binding reduction requirements, it requires each nation to prepare, communicate, and maintain GHG reduction commitments. Reductions can be achieved in a variety of ways, including energy conservation, power plant efficiency improvements, reduced utilization of coal-fired generation or replacing coal-fired generation with natural gas or renewable generation. Based on the EPA's 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

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jects 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 had 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 Clean Power Plan).

Following legal challenges to the Clean Power Plan, a stay of those rules by the U.S. Supreme Court and the March 2017 Executive Order requiring the EPA to review the Clean Power Plan in October 2017, the EPA proposed to rescind the Clean Power Plan. On August 21, 2018, the EPA proposed the Affordable Clean Energy (ACE) Rule as a replacement for the Clean Power Plan pertaining to existing sources. 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 Clean Power Plan, 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)

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 June 2019. 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

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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. 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 19 for additional information. Further changes to AROs, current capital plans or operating costs may be required as estimates are refined based on closure developments, groundwater monitoring results, and regulatory or legal proceedings. Costs relating to this rule are subject to rate recovery.

Clean Water Act

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

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

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stewater, 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 are expected to be significant. Certain costs are included in the Registrants' capital plans and 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). Registrants have been concerned that the EPA may issue a rule under TSCA relating to the use of PCBs in electrical equipment and natural gas pipelines, as well as continued use of PCB-contaminated porous surfaces which may affect Registrants' facilities in the United States, including phase-out of some or all equipment containing PCBs. The costs of such a phase-out, which are subject to rate recovery, could be significant. However, the EPA has continued to defer undertaking the rule-making of concern and no such rulemaking is on the EPA's rulemaking docket.

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.

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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 December 31, 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 identified in this section. Depending on the outcome of investigations at identified sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred; 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)

In August 2018, KU and the IBEW ratified a three-year labor agreement through August 2021. The agreement covers approximately 68 employees. 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.

The Registrants cannot predict the outcome of future union labor negotiations.

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 twelve months ended December 31, 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 and were primarily paid in 2018.

Guarantees and Other Assurances

(All Registrants)

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

(PPL)

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

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(I Registrants)

The table below details guarantees provided as of December 31, 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 December 31, 2018 was \$6 million for PPL. 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.

	Exposure at December 31, 2018	Expiration Date
PPL		
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	80 (c)	
PPL Electric		
Guarantee of inventory value	8 (d)	2020
LKE		
Indemnification of lease termination and other divestitures	200 (e)	2021
LG&E and KU		
LG&E and KU obligation of shortfall related to OVEC	(f)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

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

Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At December 31, 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. In January 2018, this agreement was superseded by a new contract which extends the guarantee until 2020.
- (e) LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.
- (f) Pursuant to the OVEC power purchase contract, LG&E and KU are obligated to pay for their share of OVEC's excess debt service, post-retirement and decommissioning costs, as well as any shortfall from amounts included within a demand charge designed and expected to cover these costs over the term of the contract. LKE's proportionate share of OVEC's outstanding debt was \$113 million at December 31, 2018, consisting of LG&E's share of \$78 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" above 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.

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

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

14. Related Party Transactions

Wholesale Sales and Purchases (LG&E and KU)

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail customers. When LG&E has excess generation capacity after serving its own retail customers and its generation cost is lower than that of KU, KU purchases electricity from LG&E and vice versa. These transactions are reflected in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded at a price equal to the seller's fuel cost plus any split savings. Savings realized from such intercompany transactions are shared equally between both companies. The volume of energy each company has to sell to the other is dependent on its retail customers' needs and its available generation.

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

PPL Services, PPL EU Services and LKS provide PPL, PPL Electric and LKE, their respective subsidiaries, including LG&E and KU, and each other with administrative, management and support services. For all 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 years ended December 31, including amounts applied to accounts that are further distributed between capital and expense on the books of the recipients, based on methods that are believed to be reasonable.

	2018	2017	2016
PPL Electric from PPL Services	\$ 59	\$ 182	\$ 132
LKE from PPL Services	26	20	18
PPL Electric from PPL EU Services	148	64	69
LG&E from LKS	151	169	178
KU from LKS	169	190	194

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 December 31, 2018 was \$650 million. No balance was outstanding at December 31, 2018 and 2017. The interest rates on borrowings are equal to one-month LIBOR plus a spread. Interest income is reflected in "Interest Income from Affiliate" on the Income Statements.

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(KE)

LKE maintains a \$375 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. In October 2018, the revolving line of credit was increased by \$75 million to the current limit of \$375 million. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At December 31, 2018 and 2017, \$113 million and \$225 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rate on the outstanding borrowings at December 31, 2018 and 2017 were 3.85% and 2.87%. Interest expense on the revolving line of credit was not significant for 2018, 2017 or 2016.

LKE maintains an agreement with a PPL affiliate that has a \$300 million borrowing limit whereby LKE can loan funds on a short-term basis at market-based rates. No balance was outstanding at December 31, 2018 and 2017. The interest rate on the loan based on the PPL affiliates credit rating is currently equal to one-month LIBOR plus a spread.

LKE maintains a \$400 million ten-year-note with a PPL affiliate with an interest rate of 3.5%. At December 31, 2018 and 2017, the note was reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on this note was \$14 million for 2018 and 2017 and not significant for 2016.

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 December 31, 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 \$7 million for 2018.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to \$500 million at an interest rate based on a market index of commercial paper issues. No balances were outstanding at December 31, 2018 and 2017.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to \$500 million at an interest rate based on a market index of commercial paper issues. No balances were outstanding at December 31, 2018 and 2017.

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

See Note 1 for discussions regarding the intercompany tax sharing agreement (for PPL Electric, LKE, LG&E and KU) and intercompany allocations of stock-based compensation expense (for PPL Electric and LKE). For PPL Electric, LG&E and KU, see Note 11 for discussions regarding intercompany allocations associated with defined benefits. For PPL Electric, see Note 13 for discussions regarding separation benefits.

15. Other Income (Expense) - net

(PPL)

The breakdown of "Other Income (Expense) - net" for the years ended December 31, was:

	2018	2017	2016
Other Income			
Economic foreign currency exchange contracts (Note 17)	\$ 150	\$ (261)	\$ 384
Defined benefit plans - non-service credits (Note 11)	257	167	112
Interest income	6	2	3
AFUDC - equity component	21	16	19
Miscellaneous	6	17	6
Total Other Income	440	(59)	524

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	2018	2017	2016
Other Expense			
Charitable contributions	24	8	9
Miscellaneous	20	21	13
Total Other Expense	44	29	22
Other Income (Expense) - net	\$ 396	\$ (88)	\$ 502

(PPL Electric)

The breakdown of "Other Income (Expense) - net" for the years ended December 31, was:

	2018	2017	2016
Other Income			
Interest income	\$ 2	\$ 1	\$ 1
AFUDC - equity component	20	15	18
Defined benefit plans - non-service credits (Note 11)	5	1	3
Miscellaneous	—	—	2
Total Other Income	27	17	24
Other Expense			
Charitable contribution	3	2	2
Miscellaneous	1	3	2
Total Other Expense	4	5	4
Other Income (Expense) - net	\$ 23	\$ 12	\$ 20

16. Fair Value Measurements

(All Registrants)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. See Note 1 for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	\$ 621	\$ 621	\$ —	\$ —	\$ 485	\$ 485	\$ —	\$ —
Restricted cash and cash equivalents (a)	22	22	—	—	26	26	—	—
Special use funds (a)	59	59	—	—	—	—	—	—
Price risk management assets (b):								
Foreign currency contracts	202	—	202	—	163	—	163	—
Cross-currency swaps	135	—	135	—	101	—	101	—
Total price risk management assets	337	—	337	—	264	—	264	—
Total assets	\$ 1,039	\$ 702	\$ 337	\$ —	\$ 775	\$ 511	\$ 264	\$ —

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	December 31, 2018				December 31, 2017			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities (b):								
Interest rate swaps	\$ 20	\$ —	\$ 20	\$ —	\$ 26	\$ —	\$ 26	\$ —
Foreign currency contracts	2	—	2	—	148	—	148	—
Total price risk management liabilities	\$ 22	\$ —	\$ 22	\$ —	\$ 174	\$ —	\$ 174	\$ —
PPL Electric								
Assets								
Cash and cash equivalents	\$ 267	\$ 267	\$ —	\$ —	\$ 49	\$ 49	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
Total assets	\$ 269	\$ 269	\$ —	\$ —	\$ 51	\$ 51	\$ —	\$ —
LKE								
Assets								
Cash and cash equivalents	\$ 24	\$ 24	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Total assets	\$ 24	\$ 24	\$ —	\$ —	\$ 30	\$ 30	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 20	\$ —	\$ 20	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 20	\$ —	\$ 20	\$ —	\$ 26	\$ —	\$ 26	\$ —
LG&E								
Assets								
Cash and cash equivalents	\$ 10	\$ 10	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 10	\$ 10	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Liabilities								
Price risk management liabilities:								
Interest rate swaps	\$ 20	\$ —	\$ 20	\$ —	\$ 26	\$ —	\$ 26	\$ —
Total price risk management liabilities	\$ 20	\$ —	\$ 20	\$ —	\$ 26	\$ —	\$ 26	\$ —
KU								
Assets								
Cash and cash equivalents	\$ 14	\$ 14	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —
Total assets	\$ 14	\$ 14	\$ —	\$ —	\$ 15	\$ 15	\$ —	\$ —

(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 exchange risk, PPL uses foreign currency contracts such as forwards, options, and cross-currency swaps that contain characteristics of both interest rate and foreign currency contracts. An income approach is used to measure the fair value of these contracts, utilizing readily observable inputs, such as forward

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Interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, market information cannot practicably be obtained to value credit risk and therefore internal models are relied upon. These models use projected probabilities of default and estimated recovery rates based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

Financial Instruments Not Recorded at Fair Value (All Registrants)

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	December 31, 2018		December 31, 2017	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 20,599	\$ 22,939	\$ 20,195	\$ 23,783
PPL Electric	3,694	3,901	3,298	3,769
LKE	5,502	5,768	5,159	5,670
LG&E	1,809	1,874	1,709	1,865
KU	2,321	2,451	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.

17. Derivative Instruments and Hedging Activities

Risk Management Objectives

(All Registrants)

PPL has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances and foreign exchange (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

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

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

Interest Rate Risk

- PPL and its subsidiaries are exposed to interest rate risk associated with forecasted fixed-rate and existing floating-rate debt issuances. PPL and WPD hold over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from changes in foreign currency exchange rates and interest rates. PPL, LKE and LG&E utilize over-the-counter interest rate swaps to limit exposure to market fluctuations on floating-rate debt. PPL, LKE, LG&E and KU utilize forward starting interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.

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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.

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

Equity Securities Price Risk

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

Credit Risk

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

PPL is exposed to credit risk from "in-the-money" 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.

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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 \$40 million and \$20 million obligation to return cash collateral under master netting arrangements at December 31, 2018 and 2017.

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

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

LKE, LG&E and KU had no cash collateral posted under master netting arrangements at December 31, 2018 and 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 in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk of certain subsidiaries is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges (PPL)

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. PPL had no such contracts at December 31, 2018.

For 2018 and 2017, PPL had no hedge ineffectiveness associated with interest rate derivatives. For 2016, hedge ineffectiveness associated with interest rate derivatives was insignificant.

At December 31, 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 2018, 2017 and 2016, PPL had no hedge ineffectiveness associated with cross-currency interest rate swap derivatives.

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

For 2018 and 2016, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges and had an insignificant amount of cash flow hedges reclassified into earnings associated with discontinued cash flow hedges in 2017.

At December 31, 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.

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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. In December 2016, a swap with a notional amount of \$32 million was terminated. A cash settlement of \$9 million was paid on the terminated swap. The settlement is included in noncurrent regulatory assets on the Balance Sheet and in "Cash Flows from Operating Activities" on the Statement of Cash Flows. At December 31, 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 December 31, 2018.

At December 31, 2018 and 2017, PPL had \$31 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.

Economic Activity

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At December 31, 2018, the total exposure hedged by PPL was approximately £1.5 billion (approximately \$2.2 billion based on contracted rates). These contracts had termination dates ranging from January 2019 through October 2020.

In the third quarter of 2016, PPL settled foreign currency hedges related to 2017 and 2018 anticipated earnings, resulting in receipt of \$310 million of cash and entered into new hedges at current market rates. The notional amount of the settled hedges was approximately £1.3 billion (approximately \$2.0 billion based on contracted rates) with termination dates from January 2017 through November 2018. The settlement did not have a significant impact on net income as the hedge values were previously marked to fair value and recognized in "Other Income (Expense) - net" on the Statement of Income.

Accounting and Reporting

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts for PPL and PPL Electric include certain full-requirement purchase contracts and other physical purchase contracts. Changes in the fair value of derivatives not designated as NPNS are recognized in earnings unless specific hedge accounting criteria are met and designated as such, except for the changes in fair values of LG&E's interest rate swaps that are recognized as regulatory assets or regulatory liabilities. See Note 7 for amounts recorded in regulatory assets and regulatory liabilities at December 31, 2018 and 2017.

See Note 1 for additional information on accounting policies related to derivative instruments.

(PPL)

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

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	December 31, 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)	6	—	—	—	4	—	—	—
Foreign currency contracts	—	—	103	2	—	—	45	67
Total current	6	—	103	6	4	—	45	71
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	16	—	—	—	22
Cross-currency swaps (b)	129	—	—	—	97	—	—	—
Foreign currency contracts	—	—	99	—	—	—	118	81
Total noncurrent	129	—	99	16	97	—	118	103
Total derivatives	\$ 135	\$ —	\$ 202	\$ 22	\$ 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.

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
2018				
Cash Flow Hedges:				
Interest rate swaps	\$ 4	Interest Expense	\$ (8)	\$ —
Cross-currency swaps	41	Other Income (Expense) - net	42	—
		Interest Expense	1	—
Total	\$ 45		\$ 35	\$ —
Net Investment Hedges:				
Foreign currency contracts	\$ 11			
2017				
Cash Flow Hedges:				
Interest rate swaps	\$ —	Interest Expense	\$ (9)	\$ —
Cross-currency swaps	(98)	Other Income (Expense) - net	(82)	—
Total	\$ (98)		\$ (91)	\$ —
Net Investment Hedges:				
Foreign currency contracts	\$ 1			
2016				
Cash Flow Hedges:				
Interest rate swaps	\$ (21)	Interest Expense	\$ (7)	\$ —
Cross-currency swaps	130	Other Income (Expense) - net	116	—
		Interest Expense	3	—
Total	\$ 109		\$ 112	\$ —
Net Investment Hedges:				
Foreign currency contracts	\$ 2			

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Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2018	2017	2016
Foreign currency contracts	Other Income (Expense) - net	\$ 150	\$ (261)	\$ 384
Interest rate swaps	Interest Expense	(5)	(6)	(7)
	Total	\$ 145	\$ (267)	\$ 377

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2018	2017	2016
Interest rate swaps	Regulatory assets - noncurrent	\$ 6	\$ 5	\$ 7

(LKE and LG&E)

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

	December 31, 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	—	16	—	22
Total noncurrent	—	16	—	22
Total derivatives	\$ —	\$ 20	\$ —	\$ 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.

Derivative Instruments	Location of Gain (Loss)	2018	2017	2016
Interest rate swaps	Interest Expense	\$ (5)	\$ (6)	\$ (7)

Derivative Instruments	Location of Gain (Loss)	2018	2017	2016
Interest rate swaps	Regulatory assets - noncurrent	\$ 6	\$ 5	\$ 7

(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.

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	Assets				Liabilities			
	Eligible for Offset				Eligible for Offset			
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
December 31, 2018								
Treasury Derivatives								
PPL	\$ 337	\$ 2	\$ 40	\$ 295	\$ 22	\$ 2	\$ —	\$ 20
LKE	—	—	—	—	20	—	—	20
LG&E	—	—	—	—	20	—	—	20
December 31, 2017								
Treasury Derivatives								
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 December 31, 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	\$ 6	\$ 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)	6	6	6

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

18. Goodwill and Other Intangible Assets

Goodwill

(PPL)

The changes in the carrying amount of goodwill by segment were:

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	U.K. Regulated		Kentucky Regulated		Corporate and Other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Balance at beginning of period (a)	\$ 2,596	\$ 2,398	\$ 662	\$ 662	\$ —	\$ —	\$ 3,258	\$ 3,060
Effect of foreign currency exchange rates	(149)	198	—	—	—	—	(149)	198
Goodwill recognized during the period (b)	—	—	—	—	53	—	53	—
Balance at end of period (a)	\$ 2,447	\$ 2,596	\$ 662	\$ 662	\$ 53	\$ —	\$ 3,162	\$ 3,258

(a) There were no accumulated impairment losses related to goodwill.

(b) Recognized as a result of the acquisition of Safari Energy.

Other Intangible Assets

(PPL)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Contracts (a)	\$ 137	\$ 75	\$ 138	\$ 67
Land rights and easements	418	128	382	120
Licenses and other	21	1	8	3
Total subject to amortization	576	204	528	190
Not subject to amortization due to indefinite life:				
Land rights and easements	339	—	359	—
Other	6	—	—	—
Total not subject to amortization due to indefinite life	345	—	359	—
Total	\$ 921	\$ 204	\$ 887	\$ 190

(a) Gross carrying amount in 2018 and 2017 includes the fair value at the acquisition date of the OVEC power purchase contract with terms favorable to market recognized as a result of the 2010 acquisition of LKE by PPL.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other intangibles" on the Balance Sheets.

Amortization Expense was as follows:

	2018	2017	2016
Intangible assets with no regulatory offset	\$ 7	\$ 6	\$ 6
Intangible assets with regulatory offset	8	9	24
Total	\$ 15	\$ 15	\$ 30

Amortization expense for each of the next five years is estimated to be:

	2019	2020	2021	2022	2023
Intangible assets with no regulatory offset	\$ 7	\$ 7	\$ 7	\$ 7	\$ 7
Intangible assets with regulatory offset	9	8	8	8	8
Total	\$ 16	\$ 15	\$ 15	\$ 15	\$ 15

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PL Electric)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	\$ 363	\$ 121	\$ 361	\$ 117
Licenses and other	2	1	3	1
Total subject to amortization	365	122	364	118
Not subject to amortization due to indefinite life:				
Land rights and easements	17	—	13	—
Total	\$ 382	\$ 122	\$ 377	\$ 118

Intangible assets are shown as "Intangibles" on the Balance Sheets.

Amortization expense was insignificant in 2018, 2017 and 2016 and is expected to be insignificant in future years.

(LKE)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	\$ 21	\$ 3	\$ 21	\$ 3
OVEC power purchase agreement (a)	126	66	126	58
Total subject to amortization	\$ 147	\$ 69	\$ 147	\$ 61

(a) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2018	2017	2016
Intangible assets with no regulatory offset	\$ —	\$ —	\$ 1
Intangible assets with regulatory offset	8	9	24
Total	\$ 8	\$ 9	\$ 25

Amortization expense for each of the next five years is estimated to be:

	2019	2020	2021	2022	2023
Intangible assets with regulatory offset	\$ 9	\$ 8	\$ 8	\$ 8	\$ 8

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G&E)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	\$ 7	\$ 1	\$ 7	\$ 1
OVEC power purchase agreement (a)	87	46	87	40
Total subject to amortization	\$ 94	\$ 47	\$ 94	\$ 41

(a) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2018	2017	2016
Intangible assets with regulatory offset	\$ 6	\$ 6	\$ 13

Amortization expense for each of the next five years is estimated to be:

	2019	2020	2021	2022	2023
Intangible assets with regulatory offset	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6

(KU)

The gross carrying amount and the accumulated amortization of other intangible assets were:

	December 31, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Subject to amortization:				
Land rights and easements	\$ 14	\$ 2	\$ 14	\$ 2
OVEC power purchase agreement (a)	39	20	39	18
Total subject to amortization	\$ 53	\$ 22	\$ 53	\$ 20

(a) Gross carrying amount represents the fair value at the acquisition date of the OVEC power purchase contract recognized as a result of the 2010 acquisition by PPL. An offsetting regulatory liability was recorded related to this contract, which is being amortized over the same period as the intangible asset, eliminating any income statement impact. See Note 7 for additional information.

Long-term intangible assets are presented as "Other intangibles" on the Balance Sheets.

Amortization expense was as follows:

	2018	2017	2016
Intangible assets with no regulatory offset	\$ —	\$ —	\$ 1
Intangible assets with regulatory offset	2	3	11
Total	\$ 2	\$ 3	\$ 12

Amortization expense for each of the next five years is estimated to be:

	2019	2020	2021	2022	2023
Intangible assets with regulatory offset	\$ 3	\$ 2	\$ 2	\$ 2	\$ 2

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. Asset Retirement Obligations

(PPL)

WPD has recorded conditional AROs required by U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables.

(PPL and PPL Electric)

PPL Electric has identified legal retirement obligations for the retirement of certain transmission assets that could not be reasonably estimated due to indeterminable settlement dates. These assets are located on rights-of-way that allow the grantor to require PPL Electric to relocate or remove the assets. Since this option is at the discretion of the grantor of the right-of-way, PPL Electric is unable to determine when these events may occur.

(PPL, LKE, LG&E and KU)

LKE, LG&E's and KU's ARO liabilities are primarily related to CCR closure costs. See Note 13 for information on the CCR rule. ARO regulatory assets associated with certain CCR projects are amortized to expense in accordance with regulatory approvals. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements, which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. As described in Notes 1 and 7, for LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. For other AROs, at the time of retirement, the related ARO regulatory asset is offset against the associated cost of removal regulatory liability, PP&E and ARO liability.

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

	PPL		LKE		LG&E		KU	
	2018	2017	2018	2017	2018	2017	2018	2017
ARO at beginning of period	\$ 397	\$ 488	\$ 356	\$ 433	\$ 121	\$ 145	\$ 235	\$ 288
Accretion	20	21	18	20	6	7	12	13
Obligations incurred	8	—	8	—	—	—	8	—
Changes in estimated timing or cost	(3)	(73)	(14)	(54)	(2)	(8)	(12)	(46)
Effect of foreign currency exchange rates	(3)	4	—	—	—	—	—	—
Obligations settled	(72)	(43)	(72)	(43)	(22)	(23)	(50)	(20)
ARO at end of period	\$ 347	\$ 397	\$ 296	\$ 356	\$ 103	\$ 121	\$ 193	\$ 235

20. Accumulated Other Comprehensive Income (Loss)

(PPL and LKE)

The after-tax changes in AOCI by component for the years ended December 31 were as follows:

	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
PPL						
December 31, 2015	\$ (520)	\$ (7)	\$ —	\$ (6)	\$ (2,195)	\$ (2,728)
Amounts arising during the year	(1,107)	91	—	(3)	(61)	(1,080)
Reclassifications from AOCI	—	(91)	(1)	1	121	30
Net OCI during the year	(1,107)	—	(1)	(2)	60	(1,050)
December 31, 2016	\$ (1,627)	\$ (7)	\$ (1)	\$ (8)	\$ (2,135)	\$ (3,778)

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	Foreign currency translation adjustments	Unrealized gains (losses) on qualifying derivatives	Equity investees' AOCI	Defined benefit plans		Total
				Prior service costs	Actuarial gain (loss)	
Amounts arising during the year	538	(79)	—	—	(308)	151
Reclassifications from AOCI	—	73	1	1	130	205
Net OCI during the year	538	(6)	1	1	(178)	356
December 31, 2017	\$ (1,089)	\$ (13)	\$ —	\$ (7)	\$ (2,313)	\$ (3,422)
Amounts arising during the year	(444)	36	—	(11)	(187)	(606)
Reclassifications from AOCI	—	(29)	—	2	142	115
Net OCI during the year	(444)	7	—	(9)	(45)	(491)
Adoption of reclassification of certain tax effects from AOCI guidance cumulative effect adjustment (Note 1)	—	(1)	—	(3)	(47)	(51)
December 31, 2018	\$ (1,533)	\$ (7)	\$ —	\$ (19)	\$ (2,405)	\$ (3,964)
LKE						
December 31, 2015			\$ —	\$ (10)	\$ (36)	\$ (46)
Amounts arising during the year			—	—	(27)	(27)
Reclassifications from AOCI			(1)	2	2	3
Net OCI during the year			(1)	2	(25)	(24)
December 31, 2016			\$ (1)	\$ (8)	\$ (61)	\$ (70)
Amounts arising during the year			—	(2)	(23)	(25)
Reclassifications from AOCI			1	1	5	7
Net OCI during the year			1	(1)	(18)	(18)
December 31, 2017			\$ —	\$ (9)	\$ (79)	\$ (88)
Amounts arising during the year			—	—	7	7
Reclassifications from AOCI			—	2	8	10
Net OCI during the year			—	2	15	17
Adoption of reclassification of certain tax effects from AOCI guidance cumulative effect adjustment (Note 1)			—	(2)	(16)	(18)
December 31, 2018			\$ —	\$ (9)	\$ (80)	\$ (89)

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The following table presents PPL's gains (losses) and related income taxes for reclassifications from AOCI for the years ended December 31, 2018, 2017 and 2016. LKE amounts are insignificant for the years ended December 31, 2018, 2017 and 2016. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 11 for additional information.

Details about AOCI	PPL			Affected Line Item on the Statements of Income
	2018	2017	2016	
Qualifying derivatives				
Interest rate swaps	\$ (8)	\$ (9)	\$ (7)	Interest Expense
Cross-currency swaps	42	(82)	116	Other Income (Expense) - net
	1	—	3	Interest Expense
Total Pre-tax	35	(91)	112	
Income Taxes	(6)	18	(21)	
Total After-tax	29	(73)	91	
Equity Investees' AOCI				
	—	(1)	1	Other Income (Expense) - net
Total Pre-tax	—	(1)	1	
Income Taxes	—	—	—	
Total After-tax	—	(1)	1	
Defined benefit plans				
Prior service costs	(2)	(2)	(2)	
Net actuarial loss	(178)	(167)	(156)	
Total Pre-tax	(180)	(169)	(158)	
Income Taxes	36	38	36	
Total After-tax	(144)	(131)	(122)	
Total reclassifications during the year	\$ (115)	\$ (205)	\$ (30)	

21. 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. The Registrants currently do not have any finance leases.

Lessor accounting under the new guidance is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Similar to current practice, lessors will classify leases as operating, direct financing, or sales-type. The Registrants currently do not have significant lessor activity.

The Registrants adopted this standard on January 1, 2019 using a modified retrospective transition method with transition applied as of the beginning of the period of adoption. Additionally, the Registrants have elected the following practical expedients:

- For existing leases, the Registrants did not re-assess whether those contracts contain leases, retained existing lease classifications and did not reassess initial direct costs.
- The Registrants did not evaluate land easements that were not previously accounted for as leases under this new guidance. Land easements are evaluated under this new guidance beginning January 1, 2019.

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Implementation activities have been completed, which included compiling the lease inventory, concluding on industry issues and implementing controls over the new requirements to record operating leases on the balance sheet. The Registrants are expecting amounts recorded on the balance sheet at adoption to be approximately:

	PPL	LKE	LGE	KU
Right of Use Asset	\$ 80	\$ 55	\$ 25	\$ 30
Current Lease Liability	25	20	10	10
Noncurrent Lease Liability	65	45	15	25

The Registrants are expecting no impact to the Statements of Cash Flows or Statements of Income. The Registrants will also provide additional disclosures around the nature of the leasing activities beginning in the Form 10-Q for the period ended March 31, 2019. These include additional qualitative disclosures, such as a general description of leases, and quantitative disclosures, such as lease costs, weighted average remaining lease term and weighted average discount rate.

Accounting for Financial Instrument Credit Losses

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

For public business entities, this guidance will be applied using a modified retrospective approach and is effective for fiscal years beginning after December 15, 2019, and interim periods within those years. All entities may early adopt this guidance 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 Registrants will also provide additional disclosures around the income statement impacts of hedging activities as well as remove disclosures related to ineffectiveness in the Form 10-Q for the period ended March 31, 2019. Other impacts of adopting this guidance are not expected to be material. The Registrants adopted 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.

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

Simplifying the Test for Goodwill Impairment (PPL, LKE, LG&E and KU)

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

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.

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,
(Millions of Dollars)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Other Income (Expense) - net			
Equity in Earnings of Subsidiaries	\$ 470	\$ 397	\$ 452
Interest Income with Affiliate	25	14	9
Total	<u>495</u>	<u>411</u>	<u>461</u>
Interest Expense	29	30	29
Interest Expense with Affiliate	28	20	18
Income Before Income Taxes	438	361	414
Income Tax Expense (Benefit)	(7)	45	(15)
Net Income	\$ 445	\$ 316	\$ 429
Total other comprehensive income (loss)	17	(18)	(24)
Comprehensive Income Attributable to Member	\$ 462	\$ 298	\$ 405

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

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(Millions of Dollars)

	2018	2017	2016
Cash Flows from Operating Activities			
Net cash provided by (used in) operating activities	\$ 346	\$ 401	\$ 285
Cash Flows from Investing Activities			
Capital contributions to affiliated subsidiaries	(128)	(30)	(91)
Net decrease (increase) in notes receivable from affiliates	(26)	(28)	47
Net cash provided by (used in) investing activities	(154)	(58)	(44)
Cash Flows from Financing Activities			
Net increase (decrease) in notes payable with affiliates	110	58	90
Net increase (decrease) in short-term debt	—	—	(75)
Contribution from member	—	—	61
Distribution to member	(302)	(402)	(316)
Net cash provided by (used in) financing activities	(192)	(344)	(240)
Net Increase (Decrease) in Cash and Cash Equivalents	—	(1)	1
Cash and Cash Equivalents at Beginning of Period	—	1	—
Cash and Cash Equivalents at End of Period	\$ —	\$ —	\$ 1
Supplemental disclosures of cash flow information:			
Cash Dividends Received from Subsidiaries	\$ 402	\$ 418	\$ 376

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

SCHEDULE I - LG&E and KU Energy LLC
CONDENSED UNCONSOLIDATED BALANCE SHEETS AT DECEMBER 31,
(Millions of Dollars)

	2018	2017
Assets		
Current Assets		
Accounts receivable	\$ —	\$ 1
Accounts receivable from affiliates	—	8
Income taxes receivable	—	1
Notes receivable from affiliates	1,061	1,035
Total Current Assets	1,061	1,045
Investments		
Affiliated companies at equity	5,422	5,209
Other Noncurrent Assets		
Deferred income taxes	299	263
Total Assets	\$ 6,782	\$ 6,517
Liabilities and Equity		
Current Liabilities		
Notes payable to affiliates	\$ 177	\$ 241
Accounts payable to affiliates	487	469
Taxes	11	35
Other current liabilities	6	5
Total Current Liabilities	681	750
Long-term Debt		
Long-term debt	723	722
Notes payable to affiliates	650	476
Total Long-term Debt	1,373	1,198
Deferred Credits and Other Noncurrent Liabilities	5	6
Equity	4,723	4,563
Total Liabilities and Equity	\$ 6,782	\$ 6,517

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

Schedule I - LG&E and KU Energy LLC
Notes to Condensed Unconsolidated Financial Statements

1. Basis of Presentation

LG&E and KU Energy LLC (LKE) is a holding company and conducts substantially all of its business operations through its subsidiaries. Substantially all of its consolidated assets are held by such subsidiaries. LKE uses the equity method to account for its investments in entities in which it has a controlling financial interest. LKE's cash flow and its ability to meet its obligations are largely dependent upon the earnings of these subsidiaries and the distribution or other payment of such earnings to it in the form of dividends or repayment of loans and advances from the subsidiaries. These condensed financial statements and related footnotes have been prepared in accordance with Reg. §210.12-04 of Regulation S-X. These statements should be read in conjunction with the consolidated financial statements and notes thereto of LKE.

LKE indirectly or directly owns all of the ownership interests of its significant subsidiaries. LKE relies primarily on dividends from its subsidiaries to fund LKE's distributions to its member and to meet its other cash requirements. See Note 8 to LKE's consolidated financial statements for discussions related to restricted net assets of its subsidiaries for the purposes of transferring funds to LKE in the form of distributions, loans or advances.

2. Commitments and Contingencies

See Note 13 to LKE's consolidated financial statements for commitments and contingencies of its subsidiaries.

Guarantees

LKE provides certain indemnifications covering the due and punctual payment, performance and discharge by each party of its respective obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under a 2009 Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a maximum exposure of \$200 million, exclusive of certain items such as government fines and penalties that may exceed the maximum.

Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum exposures range from being capped at the sale price to no specified maximum. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. LKE cannot predict the ultimate outcomes of the various indemnification scenarios, but does not expect such outcomes to result in significant losses above the amounts recorded.

Long-Term Debt

See Note 8 to LKE's consolidated financial statements for the terms of LKE's outstanding senior unsecured notes outstanding. Of the total outstanding, \$475 million matures in 2020 and \$250 million matures in 2021. These maturities are based on stated maturities. Also see Note 8 to LKE's consolidated financial statements for the terms of LKE's \$650 million in notes payable to a PPL affiliate. These notes range in maturity through 2028.

QUARTERLY FINANCIAL AND DIVIDEND DATA (Unaudited)
PPL Corporation and Subsidiaries
(Millions of Dollars, except per share data)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2018				
Operating revenues	\$ 2,126	\$ 1,848	\$ 1,872	\$ 1,939
Operating income	851	658	686	657
Net income (e)	452	515	445	415
Net income available to PPL common shareowners: (b)				
Basic EPS	0.65	0.74	0.63	0.57
Diluted EPS	0.65	0.73	0.62	0.57
Dividends declared per share of common stock (d)	0.41	0.41	0.41	0.41
2017				
Operating revenues	\$ 1,951	\$ 1,725	\$ 1,845	\$ 1,926
Operating income (c)	758	658	736	749
Net income (e)	403	292	355	78
Net income available to PPL common shareowners: (b)				
Basic EPS	0.59	0.43	0.52	0.11
Diluted EPS	0.59	0.43	0.51	0.11
Dividends declared per share of common stock (d)	0.395	0.395	0.395	0.395

- (a) Quarterly results can vary depending on, among other things, weather. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.
- (b) The sum of the quarterly amounts may not equal annual earnings per share due to changes in the number of common shares outstanding during the year or rounding. 2017 reflects the retrospective application of new accounting guidance related to the income statement presentation of net periodic benefit costs adopted by PPL in January 2018. See Note 1 to the Financial Statements for additional information on the adoption of this guidance.
- (c) PPL has paid quarterly cash dividends on its common stock in every year since 1946. Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial requirements and other factors.
- (d) Increases in net income for the quarter ended June 30, 2018 compared with June 30, 2017 were primarily due to the favorable impact of foreign currency economic hedges. Increases in net income for the quarter ended December 31, 2018 compared with December 31, 2017 were primarily due to the favorable impact of foreign currency economic hedges in 2018 and the unfavorable impact of U.S. tax reform in 2017.

QUARTERLY FINANCIAL DATA (Unaudited)
PPL Electric Utilities Corporation and Subsidiaries
(Millions of Dollars)

	For the Quarters Ended (a)			
	March 31	June 30	Sept. 30	Dec. 31
2018				
Operating revenues	\$ 639	\$ 517	\$ 548	\$ 573
Operating income	228	133	178	155
Net income	148	75	111	96
2017				
Operating revenues	\$ 573	\$ 500	\$ 547	\$ 575
Operating income	160	155	189	196
Net income	79	77	95	111

(a) PPL Electric's business is seasonal in nature, with peak sales periods generally occurring in the winter and summer months. Accordingly, comparisons among quarters of a year may not be indicative of overall trends and changes in operations.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

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

The Registrants' principal executive officers and principal financial officers, based on their evaluation of the Registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of December 31, 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 annual report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive officers and principal financial officers, to allow for timely decisions regarding required disclosure.

(b) Changes in internal control over financial reporting.

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company

The Registrants' principal executive officers and principal financial officers have concluded that there were no changes in the Registrants' internal control over financial reporting during the Registrants' fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrants' internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

PPL Corporation

PPL's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). PPL's internal control over financial reporting is a process designed to provide reasonable assurance to PPL's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), our management concluded that our internal control over financial reporting was effective December 31, 2018. The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report contained on page 100.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Management of PPL's non-accelerated filer companies, PPL Electric, LKE, LG&E and KU, are responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) or 15d-15(f). Each of the aforementioned companies' internal control over financial reporting is a process

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designed to provide reasonable assurance to management and Board of Directors of these companies regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Under the supervision and with the participation of our management, including the principal executive officers and principal financial officers of the companies listed above, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in "Internal Control - Integrated Framework" (2013), management of these companies concluded that our internal control over financial reporting was effective as of December 31, 2018. This annual report does not include an attestation report of Deloitte & Touche LLP, the companies' independent registered public accounting firm regarding internal control over financial reporting for these non-accelerated filer companies. The effectiveness of internal control over financial reporting for the aforementioned companies was not subject to attestation by the companies' registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit these companies to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

PPL Corporation

Additional information for this item will be set forth in the sections entitled "Nominees for Directors," "Board Committees - Board Committee Membership" and "Section 16(a) Beneficial Ownership Reporting Compliance" in PPL's 2019 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2018, and which information is incorporated herein by reference. There have been no changes to the procedures by which shareowners may recommend nominees to PPL's board of directors since the filing with the SEC of PPL's 2018 Notice of Annual Meeting and Proxy Statement.

PPL has adopted a code of ethics entitled "Standards of Integrity" that applies to all directors, managers, trustees, officers (including the principal executive officers, principal financial officers and principal accounting officers (each, a "principal officer")), employees and agents of PPL and PPL's subsidiaries for which it has operating control (PPL Electric, LKE, LG&E and KU). The "Standards of Integrity" are posted on PPL's Internet website: www.pplweb.com/Standards-of-Integrity. A description of any amendment to the "Standards of Integrity" (other than a technical, administrative or other non-substantive amendment) will be posted on PPL's Internet website within four business days following the date of the amendment. In addition, if a waiver constituting a material departure from a provision of the "Standards of Integrity" is granted to one of the principal officers, a description of the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will be posted on PPL's Internet website within four business days following the date of the waiver.

PPL also has adopted its "Guidelines for Corporate Governance," which address, among other things, director qualification standards and director and board committee responsibilities. These guidelines, and the charters of each of the committees of PPL's board of directors, are posted on PPL's Internet website: www.pplweb.com/Guidelines and www.pplweb.com/board-committees.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 10 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instruction (I)(1)(a) and (b) of Form 10-K.

EXECUTIVE OFFICERS OF THE REGISTRANTS

Officers of the Registrants are elected annually by their Boards of Directors to serve at the pleasure of the respective Boards. There are no family relationships among any of the executive officers, nor is there any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

There have been no events under any bankruptcy act, no criminal proceedings and no judgments or injunctions material to the evaluation of the ability and integrity of any executive officer during the past five years.

Listed below are the executive officers at December 31, 2018.

PPL Corporation

Name	Age	Positions Held During the Past Five Years	Dates
William H. Spence	61	Chairman, President and Chief Executive Officer	April 2012 - present
Joanne H. Raphael (a)	59	Senior Vice President, General Counsel and Corporate Secretary Senior Vice President and Chief External Affairs Officer-PPL Services	June 2015 - January 2019 October 2012 - May 2015
Vincent Sorgi (a)	47	Senior Vice President and Chief Financial Officer Vice President and Controller	June 2014 - January 2019 March 2010 - June 2014
Gregory N. Dudkin (b)	61	President-PPL Electric	March 2012 - present
Paul W. Thompson (b)	61	Chairman of the Board, Chief Executive Officer and President-LKE President and Chief Operating Officer Chief Operating Officer	March 2018 - present January 2017 - March 2018 February 2013 - December 2016
Philip Swift (b)	51	Chief Executive-WPD Operations Director	November 2018 - present July 2013 - November 2018
Stephen K. Breininger (c)	45	Vice President and Controller Controller Assistant Controller-Business Lines Controller-Supply Accounting	January 2015 - present June 2014 - January 2015 March 2013 - June 2014 April 2010 - March 2013
Tadd J. Henninger	43	Vice President and Treasurer Assistant Treasurer Director-Corporate Finance	January 2018 - present December 2015 - December 2017 October 2013 - November 2015

- (a) Effective January 25, 2019, Joanne H. Raphael was promoted to Executive Vice President, General Counsel and Corporate Secretary and Vincent Sorgi to Executive Vice President and Chief Financial Officer.
- (b) Designated an executive officer of PPL by virtue of their respective positions at a PPL subsidiary.
- (c) Effective March 1, 2019, Marlene C. Beers will become Vice President and Controller of PPL Corporation and Stephen K. Breininger will become Vice President-Finance and Regulatory Affairs and Controller of PPL Electric Utilities Corporation.

ITEM 11. EXECUTIVE COMPENSATION

PPL Corporation

Information for this item will be set forth in the sections entitled "Compensation of Directors," "The Board's Role in Risk Oversight," "Board Committees - Compensation Committee Interlocks and Insider Participation" and "Executive Compensation" in PPL's 2019 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2018, and which information is incorporated herein by reference.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 11 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

PPL Corporation

Information for this item will be set forth in the section entitled "Stock Ownership" in PPL's 2019 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2018, and which information is incorporated herein by reference. In addition, provided below in tabular format is information as of December 31, 2018, with respect to compensation plans (including individual compensation arrangements) under which equity securities of PPL are authorized for issuance.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (3)	Weighted-average exercise price of outstanding options, warrants and rights (3)	Number of securities remaining available for future issuance under equity compensation plans (4)
Equity compensation plans approved by security holders (1)	80,225 – ICP 1,505,242 – SIP <u>1,329,058</u> – ICPKE 2,914,525 – Total	\$ 24.61 – ICP \$ 26.40 – SIP \$ 26.21 – ICPKE \$ 26.26 – Combined	1,617,762 – DDCP 10,658,659 – SIP <u>1,805,052</u> – ICPKE 14,081,473 – Total
Equity compensation plans not approved by security holders (2)			

- (1) Includes (a) the ICP, under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards were awarded to executive officers of PPL and no awards remain for issuance under this plan; (b) the ICPKE, under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to non-executive key employees of PPL and its subsidiaries; (c) the PPL 2012 SIP approved by shareowners in 2012 under which stock options, restricted stock, restricted stock units, performance units, dividend equivalents and other stock-based awards may be awarded to executive officers of PPL and its subsidiaries; and (d) the DDCP, under which stock units may be awarded to directors of PPL. See Note 10 to the Financial Statements for additional information.
- (2) All of PPL's current compensation plans under which equity securities of PPL are authorized for issuance have been approved by PPL's shareowners.
- (3) Relates to common stock issuable upon the exercise of stock options awarded under the ICP, SIP and ICPKE as of December 31, 2018. In addition, as of December 31, 2018, the following other securities had been awarded and are outstanding under the ICP, SIP, ICPKE and DDCP: 460,095 restricted stock units, 586,383 TSR performance awards and 226,260 ROE performance awards under the SIP; 638,109 restricted stock units 253,741 TSR performance awards and 102,698 ROE performance awards under the ICPKE; and 518,539 stock units under the DDCP.

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-) Based upon the following aggregate award limitations under the ICP, SIP, ICPKE and DDCP: (a) under the ICP, 15,769,431 awards (i.e., 5% of the total PPL common stock outstanding as of April 23, 1999) granted after April 23, 1999; (b) under the SIP, 15,000,000 awards; (c) under the ICPKE, 16,573,608 awards (i.e., 5% of the total PPL common stock outstanding as of January 1, 2003) granted after April 25, 2003, reduced by outstanding awards for which common stock was not yet issued as of such date of 2,373,812 resulting in a limit of 14,199,796; and (d) under the DDCP, the number of stock units available for issuance was reduced to 2,000,000 stock units in March 2012. In addition, each of the ICP and ICPKE includes an annual award limitation of 2% of total PPL common stock outstanding as of January 1 of each year.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 12 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

PPL Corporation

Information for this item will be set forth in the sections entitled "Transactions with Related Persons" and "Independence of Directors" in PPL's 2019 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2018, and is incorporated herein by reference.

PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Item 13 is omitted as PPL Electric, LKE, LG&E and KU meet the conditions set forth in General Instructions (I)(1)(a) and (b) of Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

PPL Corporation

Information for this item will be set forth in the section entitled "Fees to Independent Auditor for 2018 and 2017" in PPL's 2019 Notice of Annual Meeting and Proxy Statement, which will be filed with the SEC not later than 120 days after December 31, 2018, and which information is incorporated herein by reference.

PPL Electric Utilities Corporation

For the fiscal year ended 2018 and 2017, Deloitte & Touche LLP (Deloitte) served as PPL Electric's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to PPL Electric, for professional services rendered for the audit of PPL Electric's annual financial statements and for fees billed for other services rendered by Deloitte.

	2018	2017
	(in thousands)	
Audit fees (a)	\$ 1,093	\$ 1,086
Audit-related fees (b)	28	28
Taxes (c)	15	—
Other fees (d)	—	253

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in PPL Electric's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
- (b) Includes fees for agreed upon procedures related to Annual EPA filings.
- (c) Fees for services related to Puerto Rico hurricane recovery efforts.
- (d) Fees for a systems portfolio analysis.

LG&E and KU Energy LLC

For the fiscal years ended 2018 and 2017, Deloitte served as LKE's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to LKE, for professional services rendered for the audits of LKE's annual financial statements and for fees billed for other services rendered by Deloitte.

	2018	2017
	(in thousands)	
Audit fees (a)	\$ 1,761	\$ 1,717
Audit-related fees (b)	18	—

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LKE's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
- (b) Includes fees for agreed upon procedures related to Kentucky Energy and Environment Cabinet forms.

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Louisville Gas and Electric Company

For the fiscal years ended 2018 and 2017, Deloitte served as LG&E's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to LG&E, for professional services rendered for the audits of LG&E's annual financial statements and for fees billed for other services rendered by Deloitte.

	2018	2017
	(in thousands)	
Audit fees (a)	\$ 870	\$ 826
Audit-related fees (b)	9	—

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in LG&E's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
(b) Includes fees for agreed upon procedures related to Kentucky Energy and Environment Cabinet forms.

Kentucky Utilities Company

For the fiscal years ended 2018 and 2017, Deloitte served as KU's independent auditor. The following table presents an allocation of fees billed, including expenses, by the independent auditor to KU, for professional services rendered for the audits of KU's annual financial statements and for fees billed for other services rendered by Deloitte.

	2018	2017
	(in thousands)	
Audit fees (a)	\$ 875	\$ 874
Audit-related fees (b)	9	—

- (a) Includes estimated fees for audit of annual financial statements and review of financial statements included in KU's Quarterly Reports on Form 10-Q and for services in connection with statutory and regulatory filings or engagements, including comfort letters and consents for financings and filings made with the SEC.
(b) Includes fees for agreed upon procedures related to Kentucky Energy and Environment Cabinet forms.

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Approval of Fees. The Audit Committee of PPL has procedures for pre-approving audit and non-audit services to be provided by the independent auditor. These procedures are designed to ensure the continued independence of the independent auditor. More specifically, the use of the independent auditor to perform either audit or non-audit services is prohibited unless specifically approved in advance by the Audit Committee of PPL. As a result of this approval process, the Audit Committee of PPL has pre-approved specific categories of services and authorization levels. All services outside of the specified categories and all amounts exceeding the authorization levels are approved by the Chair of the Audit Committee of PPL, who serves as the Committee designee to review and approve audit and non-audit related services during the year. A listing of the approved audit and non-audit services is reviewed with the full Audit Committee of PPL no later than its next meeting.

The Audit Committee of PPL approved 100% of the 2018 and 2017 services provided by Deloitte.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

(a) The following documents are filed as part of this report:

1. Financial Statements - Refer to the "Table of Contents" for an index of the financial statements included in this report.
2. Supplementary Data and Supplemental Financial Statement Schedule - included in response to Item 8.

Schedule I - LG&E and KU Energy LLC Condensed Unconsolidated Financial Statements.

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

3. Exhibits

See Exhibit Index immediately following the signature pages.

SHAREOWNER AND INVESTOR INFORMATION

Annual Meeting: The 2019 annual meeting of shareowners of PPL will be held on Tuesday, May 14, 2019, at the Hyatt Regency Lexington, 401 West High St., Lexington, Kentucky 40507.

Proxy Statement Material: A proxy statement and notice of PPL's annual meeting will be provided to all shareowners who are holders of record as of February 28, 2019. The latest proxy statement can be accessed at www.pplweb.com/PPLCorpProxy.

PPL Annual Report: The report will be published in the beginning of April and will be provided to all shareowners who are holders of record as of February 28, 2019. The latest annual report can be accessed at www.pplweb.com/PPLCorpProxy.

Dividends: Subject to the declaration of dividends on PPL common stock by the PPL Board of Directors or its Executive Committee, dividends are paid on the first business day of April, July, October and January. The 2019 record dates for dividends are expected to be March 8, June 10, September 10 and December 10.

PPL's Website (www.pplweb.com): Shareowners can access PPL publications such as annual and quarterly reports to the Securities and Exchange Commission (SEC Forms 10-K and 10-Q), other PPL filings, corporate governance materials, news releases, stock quotes and historical performance. Visitors to our website can subscribe to receive automated email alerts for SEC filings, earnings releases, daily stock prices or other financial news.

Financial reports which are available at www.pplweb.com will be mailed without charge upon request.

By mail:

PPL Treasury Dept.
Two North Ninth Street
Allentown, PA 18101

By email: invserv@pplweb.com

By telephone:

Shareowner Services: Toll-free at 1-800-345-3085
PPL Treasury Dept: 610-774-5151

Online Account Access: Registered shareowners can activate their account for online access by visiting shareowneronline.com.

Direct Stock Purchase and Dividend Reinvestment Plans (Plan): PPL offers investors the opportunity to acquire shares of PPL common stock through its Plan. Through the Plan, participants are eligible to invest up to \$25,000 per calendar month in PPL common stock. Shareowners may choose to have dividends on their PPL common stock fully or partially reinvested in PPL common stock or can receive full payment of cash dividends by check or electronic funds transfer. Participants in the Plan may choose to have their common stock certificates deposited into their Plan account.

Direct Registration System: PPL participates in the Direct Registration System (DRS). Shareowners may choose to have their common stock certificates converted to book entry form within the DRS by submitting their certificates to PPL's transfer agent.

Listed Securities:

New York Stock Exchange

PPL Corporation:
Common Stock (Code: PPL)

PPL Capital Funding, Inc.:
2007 Series A Junior Subordinated Notes due 2067 (Code: PPL/67)
2013 Series B Junior Subordinated Notes due 2073 (Code: PPX)

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scal Agents:

Transfer Agent and Registrar; Dividend Disbursing Agent; Plan Administrator

Equiniti Trust Company
Shareowner Services
1110 Centre Pointe Curve, Suite 101
Mendota Heights, MN 55120

Toll Free: 1-800-345-3085
Outside U.S.: 651-450-4064
Website: shareowneronline.com

Indenture Trustee

The Bank of New York Mellon
Corporate Trust Administration
500 Ross Street
Pittsburgh, PA 15262

EXHIBIT INDEX

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

- 1(a) - Securities Purchase and Registration Rights Agreement, dated March 5, 2014, among PPL Capital Funding, Inc., PPL Corporation, and the several purchasers named in Schedule B thereto (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 1(b) - Equity Distribution Agreement, dated February 26, 2015, by and among PPL Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporation (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 26, 2015)
- 1(c) - Equity Distribution Agreement, dated February 26, 2015, by and among PPL Corporation and Morgan Stanley & Co. LLC (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 26, 2015)
- 1(d) - Final Terms, dated November 14, 2017, of Western Power Distribution (South West) plc £250,000,000 2.375% Notes due May 2029 (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 16, 2017)
- 1(e) - Distribution Agreement, dated February 23, 2018, by and among PPL Corporation and J.P. Morgan Securities, LLC, Barclays Capital Inc., Citigroup Global Markets Inc., JPMorgan Chase Bank, National Association, London Branch, Barclays Bank PLC and Citibank N.A. (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 23, 2018)
- 1(f) - Final Terms, dated March 23, 2018, of Western Power Distribution (South Wales) plc £30,000,000 RPI Index Linked Senior Unsecured Notes due March 2036 (Exhibit 1(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 1(g) - Final Terms, dated May 11, 2018, of Western Power Distribution (West Midlands) plc £30,000,000 RPI Index Linked Senior Unsecured Notes due March 2028 (Exhibit 1(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2018)
- 2(a) - Separation Agreement among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Raven Power Holdings LLC, C/R Energy Jade, LLC and Sapphire Power Holdings LLC., dated as of June 9, 2014 (Exhibit 2.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- 2(b) - Transaction Agreement among PPL Corporation, Talen Energy Holdings, Inc., Talen Energy Corporation, PPL Energy Supply, LLC, Talen Energy Merger Sub, Inc., C/R Energy Jade, LLC, Sapphire Power Holdings LLC. and Raven Power Holdings LLC, dated as of June 9, 2014 (Exhibit 2.2 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)
- 3(a) - Amended and Restated Articles of Incorporation of PPL Corporation, effective as of May 25, 2016 (Exhibit 3(i) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 26, 2016)
- 3(b) - Bylaws of PPL Corporation, effective as of December 18, 2015 (Exhibit 3(ii) to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 21, 2015)
- 3(c) - Amended and Restated Articles of Incorporation of PPL Electric Utilities Corporation, effective as of October 31, 2013 (Exhibit 3(a) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2013)
- 3(d) - Bylaws of PPL Electric Utilities Corporation, effective as of October 27, 2015 (Exhibit 3(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2015)

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- 3(e) - Articles of Organization of LG&E and KU Energy LLC, effective as of December 29, 2003 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173665))
- 3(f)-1 - Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 1, 2010 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173665))
- 3(f)-2 - Amendment to Amended and Restated Operating Agreement of LG&E and KU Energy LLC, effective as of November 25, 2013 (Exhibit 3(h)-2) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2013)
- 3(g)-1 - Amended and Restated Articles of Incorporation of Louisville Gas and Electric Company, effective as of November 6, 1996 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(g)-2 - Articles of Amendment to Articles of Incorporation of Louisville Gas and Electric Company, effective as of April 6, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(h) - Bylaws of Louisville Gas and Electric Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173676))
- 3(i)-1 - Amended and Restated Articles of Incorporation of Kentucky Utilities Company, effective as of December 14, 1993 (Exhibit 3(a) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(i)-2 - Articles of Amendment to Articles of Incorporation of Kentucky Utilities Company, effective as of April 8, 2004 (Exhibit 3(b) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 3(j) - Bylaws of Kentucky Utilities Company, effective as of December 16, 2003 (Exhibit 3(c) to Registration Statement filed on Form S-4 (File No. 333-173675))
- 4(a)-1 - Amended and Restated Employee Stock Ownership Plan, dated December 1, 2016 (Exhibit 4(a) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- 4(a)-2 - Amendment No. 1 to PPL Employee Stock Ownership Plan, dated October 2, 2017 (Exhibit 4(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2017)
- *4(a)-3 - Amendment No. 2 to PPL Employee Stock Ownership Plan, dated December 1, 2018
- *4(a)-4 - Amendment No. 3 to PPL Employee Stock Ownership Plan, dated January 1, 2019
- 4(b) - Trust Deed constituting £150 million 9.25% percent Bonds due 2020, dated November 9, 1995, between South Wales Electric plc and Bankers Trustee Company Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(c)-1 - Indenture, dated as of November 1, 1997, among PPL Corporation, PPL Capital Funding, Inc. and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 12, 1997)
- 4(c)-2 - Supplemental Indenture No. 8, dated as of June 14, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2012)
- 4(c)-3 - Supplemental Indenture No. 9, dated as of October 15, 2012, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 15, 2012)

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- 4(c)-4 - Supplemental Indenture No. 10, dated as of May 24, 2013, to said Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(c)-5 - Supplemental Indenture No. 11, dated as of May 24, 2013, to said Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(c)-6 - Supplemental Indenture No. 12, dated as of May 24, 2013, to said Indenture (Exhibit 4.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 24, 2013)
- 4(c)-7 - Supplemental Indenture No. 13, dated as of March 10, 2014, to said Indenture (Exhibit 4.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 4(c)-8 - Supplemental Indenture No. 14, dated as of March 10, 2014, to said Indenture (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 10, 2014)
- 4(c)-9 - Supplemental Indenture No. 15, dated as of May 17, 2016, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2016)
- 4(c)-10 - Supplemental Indenture No. 16, dated as of September 8, 2017, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 6, 2017)
- 4(d)-1 - Indenture, dated as of March 16, 2001, among WPD Holdings UK, Bankers Trust Company, as Trustee, Principal Paying Agent, and Transfer Agent and Deutsche Bank Luxembourg, S.A., as Paying and Transfer Agent (Exhibit 4(g) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2009)
- (d)-2 - First Supplemental Indenture constituting the creation of \$200 million 6.75% Notes due 2004, \$200 million 6.875% Notes due 2007, \$225 million 6.50% Notes due 2008, \$100 million 7.25% Notes due 2017 and \$300 million 7.375% Notes due 2028, dated as of March 16, 2001, to said Indenture (Exhibit 4(n)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(d)-3 - Second Supplemental Indenture, dated as of January 30, 2003, to said Indenture (Exhibit 4(n)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(d)-4 - Third Supplemental Indenture, dated as of October 31, 2014, to said Indenture (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2014)
- 4(d)-5 - Fourth Supplemental Indenture, dated as of December 1, 2016 (Exhibit 4(d)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- *4(d)-6 - Fifth Supplemental Indenture, dated as of January 2, 2019, to said Indenture
- 4(e)-1 - Indenture, dated as of August 1, 2001, by PPL Electric Utilities Corporation and JPMorgan Chase Bank (formerly The Chase Manhattan Bank), as Trustee (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 21, 2001)
- 4(e)-2 - Supplemental Indenture No. 6, dated as of December 1, 2005, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated December 22, 2005)
- 4(e)-3 - Supplemental Indenture No. 7, dated as of August 1, 2007, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 14, 2007)

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- 4(e)-4 - Supplemental Indenture No. 9, dated as of October 1, 2008, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(e)-5 - Supplemental Indenture No. 10, dated as of May 1, 2009, to said Indenture (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 22, 2009)
- 4(e)-6 - Supplemental Indenture No. 11, dated as of July 1, 2011, to said Indenture (Exhibit 4.1 to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 13, 2011)
- 4(e)-7 - Supplemental Indenture No. 12, dated as of July 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 18, 2011)
- 4(e)-8 - Supplemental Indenture No. 13, dated as of August 1, 2011, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 23, 2011)
- 4(e)-9 - Supplemental Indenture No. 14, dated as of August 1, 2012, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated August 24, 2012)
- 4(e)-10 - Supplemental Indenture No. 15, dated as of July 1, 2013, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated July 11, 2013)
- 4(e)-11 - Supplemental Indenture No. 16, dated as of June 1, 2014, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated June 5, 2014)
- 4(e)-12 - Supplemental Indenture No. 17, dated as of October 1, 2015, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 1, 2015)
- 4(e)-13 - Supplemental Indenture No. 18, dated as of March 1, 2016, to said Indenture (Exhibit 4(c) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)
- 4(e)-14 - Supplemental Indenture No. 19, dated as of May 1, 2017, to said Indenture (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated May 11, 2017)
- 4(e)-15 - Supplemental Indenture No. 20, dated as of June 1, 2018, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 14, 2018)
- 4(f)-1 - Trust Deed constituting £200 million 5.875 percent Bonds due 2027, dated March 25, 2003, between Western Power Distribution (South West) plc and J.P. Morgan Corporate Trustee Services Limited (Exhibit 4(o)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(f)-2 - Supplement, dated May 27, 2003, to said Trust Deed, constituting £50 million 5.875 percent Bonds due 2027 (Exhibit 4(o)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2004)
- 4(g)-1 - Pollution Control Facilities Loan Agreement, dated as of October 1, 2008, between Pennsylvania Economic Development Financing Authority and PPL Electric Utilities Corporation (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated October 31, 2008)
- 4(g)-2 - Pollution Control Facilities Loan Agreement, dated as of March 1, 2016, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 4(a) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)

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- 4(g)-3 - Pollution Control Facilities Loan Agreement, dated as of March 1, 2016, between PPL Electric Utilities Corporation and the Lehigh County Industrial Development Authority (Exhibit 4(b) to PPL Electric Utilities Corporation Form 8-K Report (File No. 1-905) dated March 10, 2016)

- 4(h) - Trust Deed constituting £105 million 1.541 percent Index-Linked Notes due 2053, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(i) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)

- 4(i) - Trust Deed constituting £120 million 1.541 percent Index-Linked Notes due 2056, dated December 1, 2006, between Western Power Distribution (South West) plc and HSBC Trustee (CI) Limited (Exhibit 4(j) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)

- 4(j) - Trust Deed constituting £225 million 4.80436 percent Notes due 2037, dated December 21, 2006, between Western Power Distribution (South Wales) plc and HSBC Trustee (CI) Limited (Exhibit 4(k) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)

- 4(k)-1 - Subordinated Indenture, dated as of March 1, 2007, between PPL Capital Funding, Inc., PPL Corporation and The Bank of New York, as Trustee (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)

- 4(k)-2 - Supplemental Indenture No. 1, dated as of March 1, 2007, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 20, 2007)

- 4(k)-3 - Supplemental Indenture No. 4, dated as of March 15, 2013, to said Subordinated Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 15, 2013)

- 4(l) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South Wales) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)

- 4(m) - Trust Deed constituting £200 million 5.75 percent Notes due 2040, dated March 23, 2010, between Western Power Distribution (South West) plc and HSBC Corporate Trustee Company (UK) Limited (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2010)

- 4(n)-1 - Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(q)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(n)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(n)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(q)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(n)-4 - Supplemental Indenture No. 3, dated as of November 1, 2013, to said Indenture (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)

- 4(n)-5 - Supplemental Indenture No. 4, dated as of September 1, 2015, to said Indenture (Exhibit 4(b) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated September 28, 2015)

- 4(n)-6 - Supplemental Indenture No. 5, dated as of August 1, 2016, to said Indenture (Exhibit 4(b) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated August 26, 2016)

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- 4(n)-7 - Supplemental Indenture No. 6, dated as of August 1, 2018, to Indenture, dated as of October 1, 2010, between Kentucky Utilities Company and The Bank of New York Mellon, as Trustee (Exhibit 4(a) to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)

- 4(o)-1 - Indenture, dated as of October 1, 2010, between Louisville Gas and Electric Company and The Bank of New York Mellon, as Trustee (Exhibit 4(r)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(o)-2 - Supplemental Indenture No. 1, dated as of October 15, 2010, to said Indenture (Exhibit 4(r)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(o)-3 - Supplemental Indenture No. 2, dated as of November 1, 2010, to said Indenture (Exhibit 4(r)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(o)-4 - Supplemental Indenture No. 3, dated as of November 1, 2013, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)

- 4(o)-5 - Supplemental Indenture No. 4, dated as of September 1, 2015, to said Indenture (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated September 28, 2015)

- 4(o)-6 - Supplemental Indenture No. 5, dated as of September 1, 2016, to said Indenture (Exhibit 4(b) to Louisville Gas and Electric Company Form 8-K (File No. 1-2893) dated September 15, 2016)

- 4(o)-7 - Supplemental Indenture No. 6, dated as of May 15, 2017, to said Indenture (Exhibit 4(b) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated June 1, 2017)

- 4(p)-1 - Indenture, dated as of November 1, 2010, between LG&E and KU Energy LLC and The Bank of New York Mellon, as Trustee (Exhibit 4(s)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(p)-2 - Supplemental Indenture No. 1, dated as of November 1, 2010, to said Indenture (Exhibit 4(s)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(p)-3 - Supplemental Indenture No. 2, dated as of September 1, 2011, to said Indenture (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)

- 4(q)-1 - 2002 Series A Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(q)-2 - Amendment No. 1 dated as of September 1, 2010 to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(w)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(r)-1 - 2002 Series B Carroll County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

- 4(r)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(x)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

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- 4(s)-1 - 2004 Series A Carroll County Loan Agreement, dated October 1, 2004 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(s)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(z)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(t)-1 - 2006 Series B Carroll County Loan Agreement, dated October 1, 2006 and amended and restated September 1, 2008, by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(t)-2 - Amendment No. 1 dated as of September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(aa)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(u)-1 - 2008 Series A Carroll County Loan Agreement, dated August 1, 2008 by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(u)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Carroll, Kentucky (Exhibit 4(cc)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(v) - 2016 Series A Carroll County Loan Agreement dated as of August 1, 2016 between Kentucky Utilities Company and the County of Carroll, Kentucky (Exhibit 4(a) to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated August 26, 2016)
- 4(w)-1 - 2000 Series A Mercer County Loan Agreement, dated May 1, 2000 and amended and restated as of September 1, 2008, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(w)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(dd)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(x)-1 - 2002 Series A Mercer County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(x)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Mercer, Kentucky (Exhibit 4(ee)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-1 - 2002 Series A Muhlenberg County Loan Agreement, dated February 1, 2002, by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(y)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Kentucky Utilities Company, and County of Muhlenberg, Kentucky (Exhibit 4(ff)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

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- 4(z)
- 2018 Series A Carroll County Loan Agreement, dated as of August 1, 2018, by and between Kentucky Utilities Company and County of Carroll, Kentucky (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)
- 4(aa)-1
- 2001 Series A Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(aa)-2
- Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(jj)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(bb)-1
- 2001 Series B Jefferson County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(bb)-2
- Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Jefferson County, Kentucky (Exhibit 4(kk)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-1
- 2003 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated October 1, 2003, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(cc)-2
- Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(ll)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-1
- 2005 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated February 1, 2005 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(dd)-2
- Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(mm)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-1
- 2007 Series A Louisville/Jefferson County Metro Government Loan Agreement, dated as of March 1, 2007 and amended and restated as of September 1, 2008, by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ee)-2
- Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(nn)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ff)
- 2007 Series B Louisville/Jefferson County Metro Government Amended and Restated Loan Agreement, dated November 1, 2010, by and between Louisville Gas and Electric Company and Louisville/Jefferson County Metro Government, Kentucky (Exhibit 4(oo) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(gg)-1
- 2001 Series A Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(qq)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)

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- 4(gg)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and the County of Trimble, Kentucky (Exhibit 4(qq)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(hh) - 2017 Series A Trimble County Loan Agreement, dated as of June 1, 2017, by and between Louisville Gas and Electric Company and the County of Trimble, Kentucky (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K Report (File No. 1-2893) dated June 1, 2017)
- 4(ii)-1 - 2001 Series B Trimble County Loan Agreement, dated November 1, 2001, by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(ii)-2 - Amendment No. 1 dated September 1, 2010, to said Loan Agreement by and between Louisville Gas and Electric Company, and County of Trimble, Kentucky (Exhibit 4(rr)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2010)
- 4(jj) - 2016 Series A Trimble County Loan Agreement dated as of September 1, 2016 between Louisville Gas and Electric Company and the County of Trimble, Kentucky (Exhibit 4(a) to Louisville Gas and Electric Company Form 8-K (File No. 1-2893) dated September 15, 2016)
- 4(kk) - Trust Deed, dated November 26, 2010, between Central Networks East plc and Central Networks West plc, the Issuers, and Deutsche Trustee Company Limited relating to Central Networks East plc and Central Network West plc £3 billion Euro Medium Term Note Programme (Exhibit 4(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2015)
- 4(ll)-1 - Indenture, dated April 21, 2011, between PPL WEM Holdings PLC, as Issuer, and The Bank of New York Mellon, as Trustee (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(ll)-2 - Supplemental Indenture No. 1, dated April 21, 2011, to said Indenture (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
- 4(ll)-3 - Second Supplemental Indenture, dated as of October 30, 2014, to said Indenture (Exhibit 4(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2014)
- 4(mm)-1 - Trust Deed, dated April 27, 2011, by and among Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc, as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 17, 2011)
- 4(mm)-2 - Amended and Restated Trust Deed, dated September 10, 2013, by and among Western Power Distribution (East Midlands) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 18, 2013)
- 4(mm)-3 - £3,000,000,000 Euro Medium Term Note Programme entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 9, 2016 (Exhibit 4(oo)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- 4(mm)-4 - £3,000,000,000 Euro Medium Term Note Programme entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 15, 2017 (Exhibit 4(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2017)

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- 4(mm)-5 - Amended and Restated Trust Deed, relating to the £3,000,000,000 Euro Medium Term Note Programme of the Issuers, dated September 9, 2016, by and among Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4(a)-1 to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 4(mm)-6 - Supplement Prospectus, dated March 15, 2018 to the £3,000,000,000 Euro Medium Term Note Programme, entered into by Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc, dated as of September 15, 2017 (Exhibit 4(a)-2 to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 4(mm)-7 - Amended and Restated Trust Deed, dated August 14, 2018, by and among Western Power Distribution (East Midlands) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc and Western Power Distribution (West Midlands) plc as Issuers, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)
- 4(nn) - Trust Deed constituting £500 million 3.625% Senior Unsecured Notes due 2023, dated November 6, 2015, by and among Western Power Distribution plc as Issuer, and HSBC Corporate Trustee Company (UK) Limited as Note Trustee (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 6, 2015)
- 4(oo) - Subscription Agreement, dated November 14, 2017, by and among Western Power Distribution(South West) plc as Issuer, HSBC Bank plc, Mizuho International plc, The Royal Bank of Scotland plc (trading as NatWest Markets), Banco Santander, S.A., Barclays Bank PLC, Lloyds Bank plc, Merrill Lynch International, MUFG Securities EMEA plc and RBC Europe Limited. (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 14, 2017).
- 4(pp) - Trust Deed, dated October 16, 2018, between Western Power Distribution plc as Issuer, and HSBC Corporate Trustee Company (UK) Limited as Trustee (Exhibit 4(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)
- 10(a) - \$300 million Revolving Credit Agreement, dated as of November 12, 2013, among PPL Capital Funding, Inc., as borrower, PPL Corporation, as Guarantor, the Lenders party thereof and PNC Bank National Association, as Administrative Agent, and Manufactures and Traders Trust as Syndication Agent (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated November 13, 2013)
- 10(b)-1 - \$150 million Revolving Credit Agreement, dated as of March 26, 2014, among PPL Capital Funding, Inc., as Borrower, PPL Corporation, as Guarantor and The Bank of Nova Scotia, as Administrative Agent, Issuing Lender and Lender (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 1, 2014)
- 10(b)-2 - First Amendment to said Revolving Credit Agreement, dated as of March 17, 2015 (Exhibit 10(c)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2015)
- 10(b)-3 - Second Amendment to said Revolving Credit Agreement, dated as of March 17, 2016 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2016)
- 10(b)-4 - Third Amendment to said Revolving Credit Agreement, dated as of March 17, 2017, (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2017)
- *10(b)-5 - Fourth Amendment to said Revolving Credit Agreement, dated as of March 16, 2018

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- 10(c) - Employee Matters Agreement, among PPL Corporation, Talen Energy Corporation, C/R Energy Jade, LLC, Sapphire Power Holdings LLC and Raven Power Holdings LLC, dated as of June 9, 2014 (Exhibit 10.1 to PPL Energy Supply, LLC Form 8-K Report (File No. 1-32944) dated June 12, 2014)

- 10(d)-1 - \$300 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among PPL Electric Utilities Corporation, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(e) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended June 30, 2014)

- 10(d)-2 - Notice of Automatic Extension, dated as of September 29, 2014, to said Amended and Restated Credit Agreement (Exhibit 10(b) to PPL Electric Utilities Corporation Form 10-Q Report (File No. 1-905) for the quarter ended September 30, 2014)

- 10(d)-3 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)

- 10(d)-4 - Commitment Extension and Increase Agreement and Amendment No. 2 to said Credit Agreement, dated as of December 1, 2016 (Exhibit 10(e)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)

- 10(d)-5 - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018 (Exhibit 10(e)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)

- 10(e)-1 - \$300 million Revolving Credit Agreement, dated as of July 28, 2014, among PPL Capital Funding, Inc., as the Borrower, PPL Corporation, as the Guarantor, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)

- 10(e)-2 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)

- 10(e)-3 - Commitment Extension and Increase Agreement and Amendment No. 2 to said Credit Agreement, dated as of December 1, 2016 (Exhibit 10(f)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)

- 10(e)-4 - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018 (Exhibit 10(f)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)

- 10(f)-1 - \$400 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among Kentucky Utilities Company, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)

- 10(f)-2 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)

- 10(f)-3 - Commitment Extension Agreement and Amendment No. 2 to said Credit Agreement, dated as of January 4, 2017 (Exhibit 10(g)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)

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- 10(f)-4 - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018 (Exhibit 10(g)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)
- 10(g)-1 - \$500 million Amended and Restated Revolving Credit Agreement, dated as of July 28, 2014, among Louisville Gas and Electric Company, as the Borrower, the Lenders from time to time party thereto and Wells Fargo Bank, National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10(g) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(g)-2 - Amendment No. 1 to said Credit Agreement, dated as of January 29, 2016 (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 3, 2016)
- 10(g)-3 - Commitment Extension Agreement and Amendment No. 2 to said Credit Agreement, dated as of January 4, 2017 (Exhibit 10(h)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2016)
- 10(g)-4 - Commitment Extension Agreement and Amendment No. 3 to said Credit Agreement, dated as of January 26, 2018 (Exhibit 10(h)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)
- 10(h)-1 - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (South West) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank, Ltd., as Joint Coordinators, and Mizuho Bank, Ltd., as Facility Agent, relating to the £245 million Multicurrency Revolving Credit Facility Agreement originally dated January 12, 2012 (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(h)-2 - Amendment Agreement, dated March 21, 2018, between Western Power Distribution (South West) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Mizuho Bank, Ltd., as Facility Agent, relating to the £245 million Multicurrency Revolving Credit Facility Agreement originally dated January 12, 2012 and amended and restated on July 29, 2014 (Exhibit 10(d) to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 10(i)-1 - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (East Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 (Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- 10(i)-2 - Amendment Agreement, dated March 13, 2018, between Western Power Distribution (East Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 and amended and restated on July 29, 2014 (Exhibit 10(b) to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 10(i)-1 - Amendment and Restatement Agreement, dated July 29, 2014, between Western Power Distribution (West Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 (Exhibit 10(j) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)

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- 10(j)-2 - Amendment Agreement, dated March 13, 2018, between Western Power Distribution (West Midlands) plc and the banks party thereto, as Bookrunners and Mandated Lead Arrangers, HSBC Bank plc and Mizuho Bank Ltd., as Joint Coordinators, and Bank of America Merrill Lynch International Limited, as Facility Agent, relating to the £300 million Multicurrency Revolving Credit Facility Agreement originally dated April 4, 2011 and amended and restated on July 29, 2014 (Exhibit 10(a) to PPL Corporation 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 10(k)-1 - \$198,309,583.05 Letter of Credit Agreement dated as of October 1, 2014 among Kentucky Utilities Company, as the Borrower, the Lenders from time to time party hereto and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Administrative Agent (Exhibit 10.1 to Kentucky Utilities Company Form 8-K Report (File No. 1-3464) dated October 2, 2014)
- 10(k)-2 - Amendment No. 1 to said Letter of Credit Agreement, dated as of August 1, 2017 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2017)
- 10(l) - £210 million Multicurrency Revolving Credit Facility Agreement, dated January 13 2016, among Western Power Distribution plc and HSBC Bank PLC and Mizuho Bank, Ltd. as Joint Coordinators and Bookrunners, Mizuho Bank, Ltd. as Facility Agent and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated January 19, 2016)
- 10(m) - £100,000,000 Term Loan Agreement, dated May 24, 2016, between Western Power Distribution (East Midlands) plc and The Bank of Tokyo-Mitsubishi UFJ, Ltd. (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 26, 2016)
- 10(n)-1 - £20,000,000 Uncommitted Facility Letter entered into between Western Power Distribution (South West) plc, Western Power Distribution (South Wales) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (East Midlands) plc and BNP Paribas, dated as of January 23, 2014 (Exhibit 10(a)-1 to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2017)
- 10(n)-2 - Amendment to said Uncommitted Facility Letter, dated as of July 28, 2017 (Exhibit 10(a)-2 to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2017)
- 10(o) - \$200,000,000 Term Loan Credit Agreement, dated as of October 26, 2017, among Louisville Gas and Electric Company, as the Borrower, the Lenders from time to time party hereto and U.S. Bank National Association, as Administrative Agent (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2017)
- 10(p) - £5,000,000 Letter of Credit Facility entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of February 20, 2018 (Exhibit 10(e) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 10(q) - £75,000,000 Facility Letter entered into between Western Power Distribution (South West) plc and Svenska Handelsbanken AB dated as of February 28, 2018 (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- 10(r) - Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(s) - Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and Barclays Bank PLC (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)
- 10(t) - Additional Confirmation of Forward Sale Transaction, dated May 10, 2018, between the Company and JPMorgan Chase Bank, National Association, London Branch (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)

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- 10(u) - Additional Confirmation of Forward Sale Transaction, dated May 8, 2018, between the Company and Barclays Bank PLC (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 11, 2018)

- 10(v)-1 - Amended and Restated Directors Deferred Compensation Plan, dated June 12, 2000 (Exhibit 10(h) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2000)

- 10(v)-2 - Amendment No. 1 to said Directors Deferred Compensation Plan, dated December 18, 2002 (Exhibit 10(m)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)

- 10(v)-3 - Amendment No. 2 to said Directors Deferred Compensation Plan, dated December 4, 2003 (Exhibit 10(q)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)

- 10(v)-4 - Amendment No. 3 to said Directors Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)

- 10(v)-5 - Amendment No. 4 to said Directors Deferred Compensation Plan, dated as of May 1, 2008 (Exhibit 10(x)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)

- 10(v)-6 - Amendment No. 5 to said Directors Deferred Compensation Plan, dated May 28, 2010 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2010)

- 10(v)-7 - Amendment No. 6 to said Directors Deferred Compensation Plan, dated as of April 15, 2015 (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2015)

- 10(w)-1 - PPL Corporation Directors Deferred Compensation Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee (Exhibit 10(hh)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)

- 10(w)-2 - PPL Officers Deferred Compensation Plan, PPL Supplemental Executive Retirement Plan and PPL Supplemental Compensation Pension Plan Trust Agreement, dated as of April 1, 2001, between PPL Corporation and Wachovia Bank, N.A. (as successor to First Union National Bank), as Trustee (Exhibit 10(hh)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)

- 10(w)-3 - PPL Revocable Employee Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(c) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)

- 10(w)-4 - PPL Employee Change in Control Agreements Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)

- 10(w)-5 - PPL Revocable Director Nonqualified Plans Trust Agreement, dated as of March 20, 2007, between PPL Corporation and Wachovia Bank, N.A., as Trustee (Exhibit 10(e) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)

- 10(x)-1 - Amended and Restated Officers Deferred Compensation Plan, dated December 8, 2003 (Exhibit 10(r) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)

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- []10(x)-2 - Amendment No. 1 to said Officers Deferred Compensation Plan, dated as of January 1, 2005 (Exhibit 10(ee)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2005)
- []10(x)-3 - Amendment No. 2 to said Officers Deferred Compensation Plan, dated as of January 22, 2007 (Exhibit 10(bb)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(x)-4 - Amendment No. 3 to said Officers Deferred Compensation Plan, dated as of June 1, 2008 (Exhibit 10(z)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- []10(x)-5 - Amendment No. 4 to said Officers Deferred Compensation Plan, dated as of February 15, 2012 (Exhibit 10(ff)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- []10(x)-6 - Amendment No. 5 to said Executive Deferred Compensation Plan, dated as of May 8, 2014 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2014)
- []10(x)-7 - Amendment No. 6 to said Executive Deferred Compensation Plan, dated as of December 16, 2015 (Exhibit []10(q)-7 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2015)
- *[]10(x)-8 - Amendment No. 7 to said Executive Deferred Compensation Plan, dated as of January 1, 2019
- []10(y)-1 - Amended and Restated Supplemental Executive Retirement Plan, dated December 8, 2003 (Exhibit 10(s) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2003)
- []10(y)-2 - Amendment No. 1 to said Supplemental Executive Retirement Plan, dated December 16, 2004 (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated December 17, 2004)
- []10(y)-3 - Amendment No. 2 to said Supplemental Executive Retirement Plan, dated as of January 1, 2005 (Exhibit 10(ff)-3 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- []10(y)-4 - Amendment No. 3 to said Supplemental Executive Retirement Plan, dated as of January 22, 2007 (Exhibit 10(cc)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(y)-5 - Amendment No. 4 to said Supplemental Executive Retirement Plan, dated as of December 9, 2008 (Exhibit 10(aa)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2008)
- []10(y)-6 - Amendment No. 5 to said Supplemental Executive Retirement Plan, dated as of February 15, 2012 (Exhibit 10(gg)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2011)
- []10(y)-7 - Amendment No. 6 to the Amended and Restated Supplemental Executive Retirement Plan, dated March 23, 2018 (Exhibit 10(g) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2018)
- []10(z)-1 - Amended and Restated Incentive Compensation Plan, effective January 1, 2003 (Exhibit 10(p) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2002)

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- []10(z)-2 - Amendment No. 1 to said Incentive Compensation Plan, dated as of January 1, 2005 (Exhibit 10(gg)-2 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2005)
- []10(z)-3 - Amendment No. 2 to said Incentive Compensation Plan, dated as of January 26, 2007 (Exhibit 10(dd)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(z)-4 - Amendment No. 3 to said Incentive Compensation Plan, dated as of March 21, 2007 (Exhibit 10(f) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(z)-5 - Amendment No. 4 to said Incentive Compensation Plan, effective December 1, 2007 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2008)
- []10(z)-6 - Amendment No. 5 to said Incentive Compensation Plan, dated as of December 16, 2008 (Exhibit 10(bb)-6 to PPL Corporation Form 10-K Report (File 1-11459) for the year ended December 31, 2008)
- []10(z)-7 - Form of Stock Option Agreement for stock option awards under the Incentive Compensation Plan (Exhibit 10(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- []10(z)-8 - Form of Restricted Stock Unit Agreement for restricted stock unit awards under the Incentive Compensation Plan (Exhibit 10(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated February 1, 2006)
- []10(z)-9 - Form of Performance Unit Agreement for performance unit awards under the Incentive Compensation Plan (Exhibit 10(ss) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2007)
- []10(aa) - Amended and Restated Incentive Compensation Plan for Key Employees, effective October 25, 2018 (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)
- []10(bb) - Short-term Incentive Plan (Annex B to Proxy Statement of PPL Corporation, dated April 12, 2016)
- []10(cc) - Employment letter, dated May 31, 2006, between PPL Services Corporation and William H. Spence (Exhibit 10(pp) to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2006)
- []10(dd) - Form of Retention Agreement entered into between PPL Corporation and Gregory N. Dudkin (Exhibit 10(h) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(ee)-1 - Form of Severance Agreement entered into between PPL Corporation and William H. Spence (Exhibit 10(i) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2007)
- []10(ee)-2 - Amendment to said Severance Agreement (Exhibit 10(a) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2009)
- []10(ff) - Form of Change in Control Severance Protection Agreement entered into between PPL Corporation and Gregory N. Dudkin, Joanne H. Raphael, Vincent Sorgi and Victor A. Staffieri (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended March 31, 2012)
- []10(gg)-1 - PPL Corporation Amended and Restated 2012 Stock Incentive Plan, effective October 25, 2018 (Exhibit 10(b) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended September 30, 2018)

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- 110(gg)-2 - Form of Performance Unit Agreement for performance unit awards under the Stock Incentive Plan (Exhibit 10(tt)-2 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- 110(gg)-3 - Form of Performance Contingent Restricted Stock Unit Agreement for restricted stock unit awards under the Stock Incentive Plan (Exhibit 10(tt)-3 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- 110(gg)-4 - Form of Nonqualified Stock Option Agreement for stock option awards under the Stock Incentive Plan (Exhibit 10(tt)-4 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2012)
- 110(gg)-5 - Form of Total Shareholder Return Performance Unit Agreement for performance units under the Amended and Restated 2012 Stock Incentive Plan (Exhibit 10(dd)-5 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)
- 110(gg)-6 - Form of Return on Equity Performance Unit Agreement for performance units under the Amended and Restated 2012 Stock Incentive Plan (Exhibit 10(dd)-6 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2017)
- 110(hh) - PPL Corporation Executive Severance Plan, effective as of July 26, 2012 (Exhibit 10(d) to PPL Corporation Form 10-Q Report (File No. 1-11459) for the quarter ended June 30, 2012)
- 110(ii) - Form of Western Power Distribution Phantom Stock Option Award Agreement for stock option awards under the Western Power Distribution Long-Term Incentive Plan (Exhibit 110(bbb)-1 to PPL Corporation Form 10-K Report (File No. 1-11459) for the year ended December 31, 2014)
- 110(ji) - Form of Grant Letter dated May 29, 2015 (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated June 1, 2015)
- 110(kk)-1 - Amended and Restated Personal Contract dated August 13, 2013, between Western Power Distribution (South West) plc and Philip Swift
- *110(kk)-2 - Ill-Health Retirement Arrangement letter agreement dated March 2, 2016, between Western Power Distribution (South West) plc and Philip Swift
- *110(kk)-3 - Pension Arrangement letter agreement dated March 2, 2016, between Western Power Distribution (South West) plc and Philip Swift
- *21 - Subsidiaries of PPL Corporation
- *23(a) - Consent of Deloitte & Touche LLP - PPL Corporation
- *23(b) - Consent of Deloitte & Touche LLP - PPL Electric Utilities Corporation
- *23(c) - Consent of Deloitte & Touche LLP - LG&E and KU Energy LLC
- *23(d) - Consent of Deloitte & Touche LLP - Louisville Gas and Electric Company

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- 23(e) - Consent of Deloitte & Touche LLP - Kentucky Utilities Company
- *24 - Power of Attorney
- *31(a) - Certificate of PPL's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(b) - Certificate of PPL's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(c) - Certificate of PPL Electric's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(d) - Certificate of PPL Electric's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(e) - Certificate of LKE's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(f) - Certificate of LKE's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(g) - Certificate of LG&E's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(h) - Certificate of LG&E's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(i) - Certificate of KU's principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- *31(j) - Certificate of KU's principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32(a) - Certificate of PPL's principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32(b) - Certificate of PPL Electric's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32(c) - Certificate of LKE's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32(d) - Certificate of LG&E's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- *32(e) - Certificate of KU's principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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99(a)	- PPL Corporation and Subsidiaries Long-term Debt Schedule
101.INS	- XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.SCH	- XBRL Taxonomy Extension Schema for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.CAL	- XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.DEF	- XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.LAB	- XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company
101.PRE	- XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Corporation, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Corporation
(Registrant)

By /s/ William H. Spence

William H. Spence -
Chairman, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ William H. Spence

William H. Spence -
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

/s/ Vincent Sorgi

Vincent Sorgi -
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/ Stephen K. Breininger

Stephen K. Breininger -
Vice President and Controller
(Principal Accounting Officer)

Directors:

Rodney C. Adkins
John W. Conway
Steven G. Elliott
Venkata Rajamannar Madabhushi
Craig A. Rogerson

William H. Spence
Natica von Althann
Keith H. Williamson
Phoebe A. Wood
Armando Zagalo de Lima

/s/ William H. Spence

William H. Spence, Attorney-in-fact

Date: February 14, 2019

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PPL Electric Utilities Corporation
(Registrant)

By /s/ Gregory N. Dudkin

Gregory N. Dudkin -
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Gregory N. Dudkin

Gregory N. Dudkin -
President
(Principal Executive Officer)

/s/ Marlene C. Beers

Marlene C. Beers -
Vice President-Finance and Regulatory Affairs and
Controller
(Principal Financial Officer and Principal Accounting
Officer)

Directors:

/s/ Gregory N. Dudkin

Gregory N. Dudkin

/s/ Vincent Sorgi

Vincent Sorgi

/s/ Joanne H. Raphael

Joanne H. Raphael

/s/ William H. Spence

William H. Spence

Date: February 14, 2019

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LG&E and KU Energy LLC
(Registrant)

By /s/ Paul W. Thompson

Paul W. Thompson -
Chairman of the Board, Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Paul W. Thompson

Paul W. Thompson -
Chairman of the Board, Chief Executive Officer
and President
(Principal Executive Officer)

/s/ Kent W. Blake

Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Lonnie E. Bellar

Lonnie E. Bellar

/s/ William H. Spence

William H. Spence

/s/ Kent W. Blake

Kent W. Blake

/s/ Paul W. Thompson

Paul W. Thompson

/s/ Vincent Sorgi

Vincent Sorgi

Date: February 14, 2019

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Louisville Gas and Electric Company
(Registrant)

By /s/ Paul W. Thompson
Paul W. Thompson -
Chairman of the Board, Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Paul W. Thompson
Paul W. Thompson -
Chairman of the Board, Chief Executive Officer
and President
(Principal Executive Officer)

/s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Lonnie E. Bellar
Lonnie E. Bellar

/s/ William H. Spence
William H. Spence

/s/ Kent W. Blake
Kent W. Blake

/s/ Paul W. Thompson
Paul W. Thompson

/s/ Vincent Sorgi
Vincent Sorgi

Date: February 14, 2019

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kentucky Utilities Company
(Registrant)

By /s/ Paul W. Thompson
Paul W. Thompson -
Chairman of the Board, Chief Executive Officer
and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

By /s/ Paul W. Thompson
Paul W. Thompson -
Chairman of the Board, Chief Executive Officer
and President
(Principal Executive Officer)

/s/ Kent W. Blake
Kent W. Blake -
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Directors:

/s/ Lonnie E. Bellar
Lonnie E. Bellar

/s/ William H. Spence
William H. Spence

/s/ Kent W. Blake
Kent W. Blake

/s/ Paul W. Thompson
Paul W. Thompson

/s/ Vincent Sorgi
Vincent Sorgi

Date: February 14, 2019

**AMENDMENT NO. 3
TO
PPL EMPLOYEE STOCK OWNERSHIP PLAN**

WHEREAS, PPL Services Corporation ("PPL") sponsors and maintains the PPL Employee Stock Ownership Plan as amended and restated effective December 1, 2016 ("Plan"); and

WHEREAS, PPL desires to amend the Plan to (1) provide certain benefits to domestic partners and (2) make a top-paid group election for determining highly compensated employees to align with its other plans;

NOW, THEREFORE, the Plan is hereby amended as follows:

I. Effective January 1, 2019, a new section 2.8A shall be added to Article II as follows:

"2.8A **"Domestic Partner"** shall mean an individual who is in a domestic partnership with a Participant and an affidavit of domestic partnership (in the form prescribed by PPL) is on file with PPL and the affidavit is still in effect."

II. Effective January 1, 2018, Section 2.16 of the Plan, "**Highly Compensated Eligible Employee**", is amended to read as follows:

"2.16 **"Highly Compensated Eligible Employee"** shall mean an Eligible Employee who:

(a) is a five-percent owner, as defined in section 416(i)(1) of the Code, either for the current Plan Year or the immediately preceding Plan Year; or

(b) (1) received more than \$125,000 (as indexed) in Compensation in the immediately preceding Plan Year, from a Participating Company or an Affiliated Company; and

(2) was among the top 20% of Employees of the Participating Company and Affiliated Companies ranked by Compensation in the immediately

preceding Plan Year (excluding Employees described in section 414(q)(5) of the Code to the extent permitted under the Code and regulations thereunder)."

III. Effective January 1, 2019, Section 7.3 of the Plan, "**Beneficiary Designation**," is amended to read as follows:

"7.3 Beneficiary Designation.

(a) Death benefits under the Plan shall be paid to the surviving Spouse of a Participant, including the Spouse of a Participant who has retired or whose employment has terminated before the Effective Date, (1) unless (A) such Spouse consents in writing not to receive such benefit and consents to the specific beneficiary designated by the Participant, (B) such consent acknowledges its own effect, and (C) such consent is witnessed by a notary public; or (2) unless the Participant establishes to the satisfaction of a Plan representative either that he has no Spouse, that his Spouse cannot be located, or that his Spouse's consent is not required under such other circumstances as are prescribed under governmental regulations.

(b) Except as provided in this Section, each Participant shall have the unrestricted right at any time to designate the beneficiary or beneficiaries who shall receive, upon or after his death, his interest in the Fund by executing and filing with the Employee Benefit Plan Board a written instrument in such form as may be prescribed by the Employee Benefit Plan Board for that purpose. Except as provided in this Section, the Participant shall have the unrestricted right to revoke and to change, at any time and from time to time, any beneficiaries previously designated by him by executing and filing with the Employee Benefit Plan Board a written instrument in such form as may be prescribed by the Employee Benefit Plan Board for that purpose. No designation, revocation or change of beneficiaries shall be valid and effective unless and until filed with the Employee Benefit Plan Board.

If no designation is made, or if the beneficiaries named in such designation pre-decease the Participant, or if the beneficiary cannot be located by the Employee Benefit Plan Board, the interest of the deceased Participant shall be paid to the surviving spouse or if none, to the Participant's Domestic Partner, or if none, to the Participant's estate.

The amount payable upon the death of a Participant shall be paid in Stock or cash as elected by the recipients."

IN WITNESS WHEREOF, this Amendment No. 3 is executed this _____ day of _____,

2018.

PPL SERVICES CORPORATION

By: _____

Thomas J. Lynch

Vice President & Chief Human Resources Officer

**AMENDMENT NO. 2
TO
PPL EMPLOYEE STOCK OWNERSHIP PLAN**

WHEREAS, PPL Services Corporation ("PPL") has adopted the PPL Employee Stock Ownership Plan ("Plan") effective January 1, 2000; and

WHEREAS, the Plan was amended and restated effective December 1, 2016, and subsequently amended by Amendment No. 1; and

NOW, THEREFORE, the Plan is hereby amended as follows:

- I. Effective December 1, 2018, Appendix A is amended to read as follows:

Appendix A

Participating Company

<u>Name</u>	<u>Effective Date</u>
1. PPL Services Corporation	July 1, 2000
2. PPL Electric Utilities Corporation	January 1, 1975
3. PPL EnergyPlus, LLC	July 14, 1998 (not participating as of June 1, 2015)
4. PPL Generation, LLC	July 1, 2000 (not participating as of June 1, 2015)
5. PPL Brunner Island, LLC	July 1, 2000 (not participating as of June 1, 2015)
6. PPL Holtwood, LLC	July 1, 2000 (not participating as of June 1, 2015)
7. PPL Martins Creek, LLC	July 1, 2000 (not participating as of June 1, 2015)
8. PPL Montour, LLC	July 1, 2000 (not participating as of June 1, 2015)

	PPL Susquehanna, LLC	July 1, 2000 (not participating as of June 1, 2015)
10.	PPL Solutions, LLC	January 1, 2002
11.	Lower Mount Bethel Energy, LLC	September 30, 2002 (not participating as of June 1, 2015)
12.	PPL Development Company, LLC	January 1, 2006
13.	PPL Global, LLC	January 1, 2006
14.	PPL Energy Services Group, LLC	September 25, 2006 (not participating as of June 1, 2015)
15.	PPL Interstate Energy Company	January 1, 2008 (not participating as of June 1, 2015)
16.	PPL Strategic Development, LLC	January 1, 2012
17.	PPL EnergyPlus Retail, LLC	June 23, 2011 (not participating as of June 1, 2015)
18.	PPL Energy Supply, LLC	September 17, 2012 (not participating as of June 1, 2015)
19.	PPL TransLink, Inc	February 11, 2016
20.	PPL EU Services Corporation	Effective January 1, 2015
21.	PPL Distributed Energy Resources, LLC	December 1, 2018

II. Except as provided in this Amendment No. 2, all other provisions of the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 2 is executed this ____ day of _____, 2018.

EMPLOYEE BENEFIT PLAN BOARD

By: _____

Julissa Burgos

Chair, Employee Benefit Plan Board

FIFTH SUPPLEMENTAL INDENTURE

Dated as of January 2, 2019

FIFTH SUPPLEMENTAL INDENTURE, dated as of January 2, 2019, among Western Power Distribution plc, a company incorporated under the laws of England and Wales (“WPD” or the “**Remaining Obligor**”), PPL UK Distribution Holdings Limited (“PUDHL”), PPL UK Management Partners (“PLUMP”, and together with PUDHL, the “**Assigning Obligors**”), PPL UK Resources Limited (“PLURL” or the “**New Obligor**”), and Deutsche Bank Trust Company Americas (formerly known as Bankers Trust Company), a New York banking corporation, as Trustee under the Indenture, as defined below (the “**Trustee**”).

WITNESSETH:

WHEREAS, WPD Holdings UK (the “**Original Issuer**”) has heretofore executed and delivered to the Trustee an indenture dated as of March 16, 2001 (as supplemented and amended, the “**Indenture**”), to provide for the issuance by it of its indebtedness;

WHEREAS, the Original Issuer has heretofore executed and delivered to the Trustee a first supplemental indenture dated as of March 16, 2001, to create multiple series of securities to be issuable under the Indenture, including one series of the Original Issuer’s 7.375% Notes Due 2028 (the “**Securities**”);

WHEREAS, the Original Issuer and PUDHL (formerly PPL WW Holdings Limited (formerly known as Western Power Distribution Holdings Limited)), have heretofore executed and delivered to the Trustee a second supplemental indenture dated as of January 30, 2003, to convey and transfer the Original Issuer’s properties and assets substantially as an entirety under the Indenture, the Securities and all other documents, agreements and instruments related thereto to PUDHL, as the successor entity, which thereby expressly assumed the Original Issuer’s applicable obligations on the Securities;

WHEREAS, PUDHL and WPD have heretofore executed and delivered to the Trustee a third supplemental indenture dated as of October 31, 2014, under which WPD assumed, as full and equal co-obligor of PUDHL, all of PUDHL’s obligations under the Indenture and the Securities, and the performance or observance of every covenant of the Indenture and the Securities to be performed or observed;

WHEREAS, PUDHL, WPD, and PLUMP, have heretofore executed and delivered to the Trustee a fourth supplemental indenture dated as of December 1, 2016, under which PLUMP assumed, as full and equal co-obligor of PUDHL and WPD, all of PUDHL’s and WPD’s obligations under the Indenture and the Securities, and the performance or observance of every covenant of the Indenture and the Securities to be performed or observed;

WHEREAS, pursuant to Article One of this Fifth Supplemental Indenture, PLURL will assume, as full and equal co-obligor of WPD, all of the Remaining Obligor’s obligations under the Indenture and the Securities, and the performance or observance of every covenant of the Indenture and the Securities to be performed or observed;

WHEREAS, pursuant to the internal reorganization plan of the group of companies of which the Remaining Obligor, the Assigning Obligors, and the New Obligor are members, and in accordance with

Article VIII (Section 801) and Article IX (Section 901) of the Indenture, PLURL, as a person that owns all of the ordinary shares of PUDHL, will assume by this Fifth Supplemental Indenture, as successor entity to PUDHL, all of its rights and obligations under the Indenture, the Securities, any supplemental indenture relating to the Securities, and all other documents, agreements, and instruments related thereto (the “**PUDHL Transfer**”). In addition, in accordance with Article VIII (Section 801) and Article IX (Section 901) of the Indenture, PLURL, as a person that owns all partnership interests in PLUMP, will assume by this Fifth Supplemental Indenture, as successor entity to PLUMP, all of its rights and obligations under the Indenture, the Securities, and any supplemental indenture relating to the Securities, and all other documents, agreements, and instruments related thereto (the “**PLUMP Transfer**” and together with the PUDHL Transfer, the “**Succession**”).

WHEREAS, pursuant to Article VIII and Article IX of the Indenture, the Remaining Obligor, the Assigning Obligors, the New Obligor, and the Trustee may enter into this Fifth Supplemental Indenture; and

WHEREAS, all other acts necessary to make this Fifth Supplemental Indenture a valid, binding and enforceable instrument, and all of the conditions and requirements set forth in the Indenture, have been performed and fulfilled and the execution and delivery of this Fifth Supplemental Indenture have been in all respects duly authorized.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each of the Remaining Obligor, the Assigning Obligors, the New Obligor, and the Trustee hereby agrees for the other parties’ benefit, and for the equal ratable benefit of the Holders, as follows:

ARTICLE ONE

ASSUMPTION OF OBLIGATIONS BY NEW OBLIGOR

Section 1.01 ASSUMPTION OF OBLIGATIONS BY NEW OBLIGOR. Each Assigning Obligor hereby agrees to assign and delegate all of its rights and obligations in relation to the Succession. The New Obligor hereby agrees that as of the date hereof, it expressly, and without any further action being necessary, assumes all of the Remaining Obligor’s and Assigning Obligors’ obligations under the Indenture and the Securities, and the due and punctual performance and observance of all the covenants and conditions to be performed or observed by the Remaining Obligor pursuant to the Indenture and the Securities in accordance with Section 801 of the Indenture, as if originally named the Company under the Indenture.

Section 1.02 WAIVER OF DISCHARGE OF OBLIGATIONS BY THE REMAINING OBLIGOR. The Remaining Obligor hereby agrees to waive the automatic release of its obligations under Section 801 of the Indenture; furthermore, the Remaining Obligor hereby agrees to waive the discharge under Section 802 of the Indenture of its obligations under the Indenture and the Securities; and without any further action being necessary, hereby reaffirms and agrees to comply with its obligations as the Company under the Indenture and the Securities and the due and punctual performance and observance of all the covenants and conditions to be performed or observed pursuant to the Indenture and the Securities in accordance with the Indenture.

Section 1.03 CO-OBLIGORS. Each of the Remaining Obligor and New Obligor hereby agrees to act as co-obligors, jointly and severally, and fully and unconditionally liable on the Securities; each shall be considered for purposes of the Indenture to be the issuer of the Securities; and the Indenture and the

Securities shall be construed and/or deemed amended in light of, and in order to give full effect to, the foregoing.

ARTICLE TWO

MISCELLANEOUS

Section 2.01 CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

Section 2.02 EXECUTION AS SUPPLEMENTAL INDENTURE. This Fifth Supplemental Indenture is executed as and shall constitute an Indenture supplemental to the Indenture, and the Indenture and this Fifth Supplemental Indenture shall form a part of the Indenture.

Section 2.03 CONFIRMATION. The Indenture as amended and supplemented by this Fifth Supplemental Indenture is in all respects confirmed and preserved.

Section 2.04 COUNTERPARTS. This Fifth Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

Section 2.05 EFFECT OF HEADINGS. The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 2.06 SEPARABILITY CLAUSE. In case any provision in this Fifth Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 2.07 GOVERNING LAW. This Fifth Supplemental Indenture shall be governed by and construed in accordance with the laws of the State of New York.

Section 2.08 TRUSTEE MAKES NO REPRESENTATION. The Trustee makes no representation as to the validity or sufficiency of this Fifth Supplemental Indenture or the statements made in the recitals of this Fifth Supplemental Indenture.

[THE REMAINDER OF THIS PAGE IS LEFT BLANK INTENTIONALLY]

IN WITNESS WHEREOF, the parties hereof have caused this Fifth Supplemental Indenture to be duly executed by their respective officers or directors duly authorized thereto, all as of the day and year first above written.

Western Power Distribution plc

By: I. R. Williams
Name: Ian Robert Williams

PPL UK Resources Limited

By: I. R. Williams
Name: Ian Robert Williams
Title: Director

PPL UK Distribution Holdings Limited

By: I. R. Williams
Name: Ian Robert Williams
Title: Director

PPL UK Management Partners

By: I. R. Williams
Name: Ian Robert Williams
Title: Director

**Deutsche Bank Trust Company Americas,
as Trustee**

By: Deutsche Bank National Trust Company

By: Debra Schwalb
Name: Debra A. Schwalb
Title: Vice President

By:
Name: Irina Golovashchuk
Title: Irina Golovashchuk
Vice President

EXECUTION VERSION

FOURTH AMENDMENT TO REVOLVING CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO REVOLVING CREDIT AGREEMENT, dated as of March 16, 2018 (this "Amendment"), to the Existing Credit Agreement (as defined below) is made by PPL CAPITAL FUNDING, INC., a Delaware corporation (the "Borrower"), PPL CORPORATION, a Pennsylvania corporation (the "Guarantor") and each Lender (such capitalized term and other capitalized terms used in this preamble and the recitals below to have the meanings set forth in, or are defined by reference in, Article I below).

WITNESSETH:

WHEREAS, the Borrower, the Guarantor, the Lenders and The Bank of Nova Scotia, as the Administrative Agent, Sole Lead Arranger and Sole Bookrunner, are all parties to the Revolving Credit Agreement, dated as of March 26, 2014 (as amended or otherwise modified prior to the date hereof, the "Existing Credit Agreement", and as amended by this Amendment and as the same may be further amended, supplemented, amended and restated or otherwise modified from time to time, the "Credit Agreement"); and

WHEREAS, the Borrower has requested that the Lenders amend the Existing Credit Agreement in order to extend the maturity date therein and the Lenders are willing to modify the Existing Credit Agreement on the terms and subject to the conditions hereinafter set forth;

NOW, THEREFORE, the parties hereto hereby covenant and agree as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1. Certain Definitions. The following terms when used in this Amendment shall have the following meanings (such meanings to be equally applicable to the singular and plural forms thereof):

"Amendment" is defined in the preamble.

"Borrower" is defined in the preamble.

"Credit Agreement" is defined in the first recital.

"Existing Credit Agreement" is defined in the first recital.

"Guarantor" is defined in the preamble.

SECTION 1.2. Other Definitions. Terms for which meanings are provided in the Existing Revolving Credit Agreement are, unless otherwise defined herein or the context otherwise requires, used in this Amendment with such meanings.

ARTICLE II
AMENDMENTS TO THE EXISTING CREDIT AGREEMENT

Effective as of the date hereof, but subject to the satisfaction of the conditions in Article III,

(a) The recitals of the Existing Credit Agreement are hereby amended and restated in their entirety as follows:

“The Loan Parties (as hereinafter defined) have requested that the Lenders provide a revolving credit facility in an aggregate principal amount, subject to Section 2.19, not to exceed \$100,000,000. In consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, the parties hereto covenant and agree as follows:”.

(b) Section 1.1 of the Existing Credit Agreement is hereby amended by amending and restating the following definitions in their entirety as follows:

““Change of Control” means (i) the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) of 25% or more of the outstanding shares of Voting Stock of the Guarantor or its successors or (ii) the failure at any time of the Guarantor or its successors to own, directly or indirectly, 80% or more of the outstanding shares of the Voting Stock in the Borrower.”; and

““Termination Date” means the earliest to occur of (i) March 15, 2019 and (ii) such earlier date upon which all Commitments shall have been terminated in their entirety in accordance with this Agreement.”.

(c) Sections 5.04(a), 5.04(c), 5.05 and 5.13 of the Existing Credit Agreement are hereby amended by replacing references to “December 31, 2016” with “December 31, 2017”.

(d) Appendix A of the Existing Credit Agreement is hereby amended and restated in its entirety as set forth on Schedule I of this Amendment.

ARTICLE III
CONDITIONS TO EFFECTIVENESS

This Amendment and the amendments contained herein shall become effective as of the date hereof when each of the conditions set forth in this Article III shall have been fulfilled to the satisfaction of the Administrative Agent.

SECTION 3.1. Counterparts. The Administrative Agent shall have received counterparts hereof executed on behalf of the Borrower, the Guarantor and the each of the Lenders.

SECTION 3.2. Costs and Expenses, etc. The Administrative Agent shall have received for the account of each Lender, all fees, costs and expenses due and payable pursuant to Section 9.03 of the Credit Agreement, if then invoiced.

SECTION 3.3. Resolutions, etc. The Administrative Agent shall have received from the Borrower and the Guarantor (i) a copy of a good standing certificate for such Loan Party, dated a date reasonably close to the date hereof and (ii) a certificate, dated as of the date hereof, of a Secretary or an Assistant Secretary of each Loan Party certifying (a) that attached thereto is a true, correct and complete copy of (x) the articles or certificate of incorporation of such Loan Party certified by the Secretary of State (or equivalent body) of the jurisdiction of incorporation of such Loan Party and (y) the bylaws of such Loan Party, and (b) that attached thereto is a true, correct and complete copy of resolutions adopted by the board of directors of such Loan Party authorizing the execution, delivery and performance of this Amendment and each other document delivered in connection herewith and that such resolutions have not been amended and are in full force.

SECTION 3.4. Opinion of Counsel. The Administrative Agent shall have received an opinion, dated the date hereof and addressed to the Administrative Agent and all Lenders, from counsel to the Borrower, in form and substance satisfactory to the Administrative Agent.

SECTION 3.5. Satisfactory Legal Form. The Administrative Agent and its counsel shall have received all information, and such counterpart originals or such certified or other copies of such materials, as the Administrative Agent or its counsel may reasonably request, and all legal matters incident to the effectiveness of this Amendment shall be satisfactory to the Administrative Agent and its counsel. All documents executed or submitted pursuant hereto or in connection herewith shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel.

ARTICLE IV MISCELLANEOUS

SECTION 4.1. Cross-References. References in this Amendment to any Article or Section are, unless otherwise specified, to such Article or Section of this Amendment.

SECTION 4.2. Loan Document Pursuant to Existing Credit Agreement. This Amendment is a Loan Document executed pursuant to the Existing Credit Agreement and shall (unless otherwise expressly indicated therein) be construed, administered and applied in accordance with all of the terms and provisions of the Existing Credit Agreement, as amended hereby, including Article IX thereof.

SECTION 4.3. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

SECTION 4.4. Counterparts. This Amendment may be executed by the parties hereto in several counterparts, each of which when executed and delivered shall be an original and all of which shall constitute together but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by facsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 4.5. Governing Law. THIS AMENDMENT WILL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING FOR SUCH PURPOSE SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK).

SECTION 4.6. Full Force and Effect; Limited Amendment. Except as expressly amended hereby, all of the representations, warranties, terms, covenants, conditions and other provisions of the Existing Credit Agreement and the Loan Documents shall remain unchanged and shall continue to be, and shall remain, in full force and effect in accordance with their respective terms. The amendments set forth herein shall be limited precisely as provided for herein to the provisions expressly amended herein and shall not be deemed to be an amendment to, waiver of, consent to or modification of any other term or provision of the Existing Credit Agreement or any other Loan Document or of any transaction or further or future action on the part of any Obligor which would require the consent of the Lenders under the Existing Credit Agreement or any of the Loan Documents.

SECTION 4.7. Representations and Warranties. In order to induce the Lenders to execute and deliver this Amendment, the Borrower and Guarantor each hereby represents and warrants to the Lenders, on the date this Amendment becomes effective pursuant to Article III, that both before and after giving effect to this Amendment, all representations and warranties set forth in Article V of the Credit Agreement are true and correct as of such date, except to the extent that any such statement expressly relates to an earlier date (in which case such statement was true and correct on and as of such earlier date).

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first above written.

PPL CAPITAL FUNDING, INC., as the Borrower

By: /s/ Tadd J. Henninger

Name: Tadd J. Henninger

Title: Vice President and Treasurer

PPL CORPORATION, as the Guarantor

By: /s/ Tadd J. Henninger

Name: Tadd J. Henninger

Title: Vice President and Treasurer

THE BANK OF NOVA SCOTIA, as the Administrative Agent and as a Lender

By: /s/ Nick Giarratano

Name: Nick Giarratano

Title: Director

Schedule I

Appendix A

COMMITMENTS

Lender	Commitment	Applicable Percentage
The Bank of Nova Scotia	\$ 100,000,000.00	100.000000000%
Total	\$ 100,000,000.00	100.000000000%

Chief Executive's Office

Avonbank
Feeder Road
Bristol
BS2 0TB

Telephone 0117 933 2000
Fax 0117 933 2022

PERSONAL
Mr P Swift
The Old Rectory
St Johns Road
Slimbridge
GL2 7BJ

<i>Our ref</i>	<i>Your ref</i>	<i>Extension</i>	<i>Date</i>
RS			2 March 2016

Dear Phil

Your Pension Arrangements**1 Introduction**

- 1.1 You are currently a Contributing Member of the Western Power Distribution Group (the "Group") of the Electricity Supply Pension Scheme ("ESPS").
- 1.2 The Finance Bill 2016 will, once passed, enact changes in the tax regime to take effect from 6 April 2016. These changes include the reduction of the standard lifetime allowance to £1 million. As you know, there is a lifetime allowance charge on benefits in excess of the lifetime allowance. In response to this change, it has been agreed that your pension arrangements with the Company should be restructured with effect from 2 March 2016.
- 1.3 This letter sets out the terms of the arrangements that will apply between us with effect from 2 March 2016, including death in service benefits.

2 Individual Protection 2014

- 2.1 You gave notice to HM Revenue & Customs of your intention to rely on individual protection 2014 on 8 April 2015. Accordingly you have a personalised lifetime allowance based on the value of your pension savings on 5 April 2014 up to a maximum of £1.5 million.

3 Withdrawal from Contributory Membership of the ESPS

- 3.1 It is a condition of the arrangements that:
 - (a) you will withdraw from Membership of the ESPS as a Contributor with effect from 23:59 on 2 March 2016;

- (b) you will not be entitled to rejoin the ESPS as a Contributor whilst you are in the Service of the Company without the agreement of the Company; and
- (c) you agree that if any of your Benefits become chargeable to the lifetime allowance charge under the Finance Act 2004, the charge shall be borne by you or the recipient of the Benefits and should accordingly be deducted by the Group Trustees from the Benefits in accordance with normal actuarial practice.

4 No Accrual of Benefits after 2 March 2016

- 4.1 You will not accrue Benefits under the ESPS in respect of your Service with the Company after 2 March 2016. However, as set out in paragraph 5.2, your Benefits accrued up to and including 2 March 2016 will be calculated on your retirement from or cessation of Service with the Company using the Pensionable Salary that would have been applicable to you on your retirement from or cessation of Service with the Company if you had remained as a Contributor in Service with the Company up to that time.
- 4.2 Instead an annual amount will be payable to you, which will be a fixed percentage of your salary and annual bonuses. This will be set out in your Service Agreement and will be non-pensionable for the purposes of the ESPS. It will only be payable during your employment for so long as you are not a Contributor to the ESPS.

5 Benefits Accrued by Service up to and including 2 March 2016

- 5.1 You will have withdrawn from Membership as a Contributor with effect from 23:59 on 2 March 2016 and thus become entitled to Frozen Benefits under the ESPS calculated on the basis set out in the Rules of the ESPS as if you had left the ESPS without leaving the Company's employment on 2 March 2016.
 - 5.2 However, pursuant to the special terms made under Rule 32 and described in this letter, your entitlement to Benefits under the ESPS (including the terms on which they are granted and any discretions exercised) will continue to be determined in accordance with the Rules of the ESPS as if you remained a Contributor in Service for so long as you remain in Service with the Company, subject to the remaining terms of this letter (notably paragraph 5.3). In particular, your Benefits will be calculated on your retirement from or cessation of Service with the Company using the Pensionable Salary that would have been applicable to you on your retirement from or cessation of Service with the Company if you had remained as a Contributor in Service with the Company up to that time.
 - 5.3 Your Benefits under the ESPS will be determined only with reference to your Contributory Service accrued as at the end of 2 March 2016, and no Contributory Service shall be accrued by or credited in respect of you after that date.
 - 5.4 You will be entitled to your Frozen Benefits (as in paragraph 5.1) including increases under Rule 26 of the ESPS and actuarial adjustment for early payment if payable before age 63, instead of your Benefits calculated under paragraph 5.2 above, if they are greater than your Benefits calculated under paragraph 5.2 above.
-

Benefits on Retirement through Ill-Health

- 6.1 For the avoidance of doubt, on retirement through Ill-Health, benefits will be calculated under ESPS based on Contributing Service (but not on prospective service until Normal Pension Age).

7 Benefits on your Death

- 7.1 If you die while in Service with the Company, benefits will be payable as if you had been in Contributing Service immediately prior to your death.
- 7.2 For the avoidance of doubt, if you die in Retirement, benefits will be payable in respect of you under the ESPS based on your pension actually in payment immediately prior to your death.

8 Leaving Service

- 8.1 For the avoidance of doubt, if you leave Service before age 63, and your Benefits are not brought into payment immediately, your Benefits will be calculated in accordance with the Rules of the ESPS, subject to paragraph 5 above.

9 Transfer basis

- 9.1 For the avoidance of doubt, if you wish to transfer your Benefits to another registered pension scheme, the transfer value will be calculated on a basis reflecting the cash equivalent of your Benefits as determined by the Actuary.

10 Salary

- 10.1 Your Salary for the purposes of the ESPS (and the special terms as detailed in this letter) shall include any annual bonuses under the Directors' Results Related Bonus Scheme.

Definitions

- 11.1 Terms that are defined in Clause 46 of the ESPS shall have the same meanings where used in this letter with initial capitals.

"Company" means Western Power Distribution (South West) plc.

"Service Agreement" means your service agreement dated 13 August 2013 with the Company.

12 Interpretation

- 12.1 In the event of any dispute regarding the interpretation of this letter and its interaction with the ESPS, the decision of the Company shall be final and binding. The terms of this letter are supplemental to the ESPS as applicable to the Western Power Distribution Group, with the intention that the normal Benefits applicable under the ESPS will apply but on the special terms granted by this letter. For the avoidance of doubt:

- (a) the special terms set out in this letter are not payable in addition to Benefits normally provided under the ESPS to which they correspond but enhance those corresponding Benefits;
- (b) any Benefits that are based on or calculated with reference to the Member's pension under the ESPS shall in your case be based on or calculated with reference to the pension actually payable to you under the ESPS and as detailed in this letter dated 2 March 2016 (rather than the standard ESPS pension that would have been payable but for this letter).

13 Acceptance

13.1 Please acknowledge your receipt of this letter and acceptance of its terms by signing and returning the enclosed copy. If you have any queries regarding its terms I would be pleased to help, but we do recommend that you take independent legal and financial advice on the contents of this letter.

Yours sincerely

ROBERT SYMONS
Chief Executive
For and on behalf of Western Power Distribution (South West) plc

I accept the terms of the above

Date 02-March-2016

Chief Executive's Office

Avonbank
Feeder Road
Bristol
BS2 0TB

Telephone 0117 933 2000
Fax 0117 933 2022

PERSONAL

Mr P Swift
The Old Rectory
St Johns Road
Slimbridge
GL2 7BJ

<i>Our ref</i>	<i>Your ref</i>	<i>Extension</i>	<i>Date</i>
RS			2 March 2016

Dear Phil

Ill-Health Retirement Arrangements whilst in Service with the Company


- 1 As you know, it has been agreed that you will be granted special pension benefit terms with the Company with effect from 2 March 2016.
 - 2 This letter sets out arrangements in respect of your retirement through Ill-Health whilst in Service with the Company.
 - 3 As set out in paragraph 6.1 of your special terms letter dated 2 March 2016, on retirement through Ill-Health, benefits will be calculated under ESPS based on Contributing Service (but not on prospective service until Normal Pension Age).
As set out in paragraph 4.2 of your special terms letter dated 2 March 2016, instead of accruing Benefits under the ESPS after the 2 March 2016, an annual pension compensation amount will be payable to you as set out in your Service Agreement.
 - 5 Subject to paragraph 9 below, the Company will seek to arrange insurance cover with an insurance company so that you may be provided with a benefit on retirement through Ill-Health as an alternative to the benefit that you would have been provided with on retirement through Ill-Health had you not withdrawn from Membership of the ESPS at the end of 2 March 2016. You agree that this alternative will not necessarily be of equivalent value to the benefit that you would have been provided with on retirement through Ill-Health had you not withdrawn from Membership of the ESPS at the end of 2 March 2016. This is due to the nature of insurance cover that is available in the marketplace.
 - 6 You hereby agree that you will use reasonable endeavours to facilitate the implementation of such insurance cover with an insurance company to the extent that action is required from you (for example by providing relevant documents and information and attending any necessary medical examination).
-

In the event that the Company is unable or unwilling (for whatever reason save for where you have not used your reasonable endeavours to take necessary action in accordance with paragraph 6 above) to obtain the necessary insurance cover from an insurance company, the Company will provide the Ill-Health benefit described in paragraph 8 below from its own resources.

- 8 In the event that paragraph 6 above applies (and subject to paragraph 9 below), should you retire through Ill-Health before attaining Normal Pension Age, you will be provided with benefits from the Company equal to those specified and calculated as provided by Rule 15(4) of the WPD Group of ESPS on the basis that Contributing Service shall mean the total number of years that you would be entitled to reckon if you had been in Service from the date of your Ill-Health Retirement until Normal Pension Age.
- 9 For the avoidance of doubt, the Ill-Health arrangements referred to in paragraph 8 of this letter are intended to put you in the position that you would have been in on retirement through Ill-Health had you not withdrawn from Membership of the ESPS at the end of 2 March 2016. There shall be no element of double counting of the IllHealth benefits you are entitled to under the WPD Group of the ESPS or of the additional pension compensation amounts that have been paid to you from 3 March 2016 to the date of your Ill-Health Retirement in lieu of further accrual of Contributing Service in the ESPS.

Yours Sincerely

ROBERT SYMONS
Chief Executive
For and on behalf of Western Power Distribution (South West) plc

 Accept the terms of the above

Date

AMENDMENT TO PERSONAL CONTRACT DATED 5 DECEMBER 1997

This AMENDMENT TO YOUR PERSONAL CONTRACT dated the 13th day of August 2013.

BETWEEN

(1) **WESTERN POWER DISTRIBUTION (SOUTH WEST) plc** ("the Company") whose registered office is at Avonbank, Feeder Road, Bristol BS2 0TB

and

(2) **PHILIP SWIFT** ("the Director") of The Old Rectory, St Johns Road, Slimbridge, Gloucestershire GL2 7BJ

amends the Personal Contract dated 5 December 1997 and the letter of 24 October 2006 and restates the provisions contained therein as follows:

References in this Agreement to "Group" shall mean the Company and any holding company of the Company or any subsidiary or subsidiary undertaking of the Company or the Company's holding company as defined in the Companies Act 1985 and any reference to the Company shall, where the context so requires or implies, include a reference to any company which controls the Company or which the Company controls or any subsidiary or any subsidiary undertaking.

NOW IT IS HEREBY AGREED:**1. Appointment and Term**

- (a) The Director is appointed to serve the Company as Operations Director in accordance with the terms and conditions of this Agreement from the first day of July 2013 (the "Employment") until:
 - (i) it is determined in accordance with Clause 14; or
 - (ii) the expiry of 6 months' notice to terminate this Agreement given by the Company to the Director or 6 months' notice to terminate this Agreement given by the Director to the Company.
- (b) The Company may without prior notice suspend and/or exclude the Director from all or any premises of the Company or the Group for any period not exceeding 6 months provided that throughout such period the Director's salary and other contractual benefits shall continue to be paid and the Director shall keep himself available for work notwithstanding that the Company shall not be obliged to provide any work for the Director during such period.
- (c) The Company may from time to time appoint a person any other person or persons to act jointly with the Director in relation to some or all his duties.

2. Duties

During the Employment the Director must:

- (a) in relation to the Group perform the duties and exercise the functions as may from time to time reasonably be assigned to or vested in him by the Chief Executive of the Company;
- (b) well and faithfully serve the Company to the best of his knowledge, power and ability and use his utmost endeavours to promote the interests and welfare of the Group; and

- (c) comply with all lawful and reasonable requests; instructions and regulations made by the Chief Executive or by anyone authorised by him and promptly provide such explanations, information and assistance as to his activities in the business of the Group as are reasonable.

Place and Time of Work

- (a) The Company's hours of work are from 8.30 am to 5.00 pm Monday to Friday. However the Director will be required and expected to devote to the affairs of the Group the whole of his time and attention during normal business hours and at such other times as his duties may reasonably require.
- (b) The Director shall perform his duties at the head office of the Company or at such other place as the Company shall reasonably require from time to time. If the Director is required subsequently to relocate the Company shall pay all reasonable expenses in accordance with the Company's relocation scheme in force from time to time.

4. Conflicts of Interest

The Director must:

- (a) not during his Employment hereunder (except in the proper performance of his duties or with the prior written consent of the Company) be directly or indirectly engaged, concerned or interested in any other business activity (where such engagement, concern or interest may reasonably be expected to interfere with the performance of his duties in the Employment) provided that this provision shall not inhibit the holding (directly or through nominees) of quoted investments as long as not more than 5% of the shares or stock of any class of any one company shall be so held;
- (b) comply with the Company's Code of Ethics and PPL's Standards of Integrity as may be modified from time to time.

5. Remuneration

- (a) As remuneration for his services in the Employment the Director shall (unless and until otherwise agreed) receive a base salary at the rate of £225,000 per annum which shall accrue from day to day and be payable in instalments monthly, such salary being inclusive of any fees to which the Director may be entitled as a Director of any company in the group.
- (b) The Company shall review the Director's salary as provided for in the subclause above annually and any changes consequent upon the said review shall take effect from 1 April of the same year.
- (c) In addition to the salary referred to above the Director shall be eligible to participate at the Company's discretion in any bonus or incentive schemes for senior executives and/or directors that the Company may operate from time to time subject to and in accordance with the rules of such schemes. Attachment A outlines the provisions of the Company's Compensation Scheme. Specific details are provided on an annual basis.

6. Expenses

The Director shall be reimbursed such expenses as are properly and reasonably incurred by him in the performance of his duties and are detailed in the Company's policy on expenses from time to time. The Director shall produce such vouchers and receipts if practical as may be required.

7. Pension

The Director shall be entitled to continue to be a member of the Electricity Supply Pension Scheme during the employment. A contracting-out certificate is in force in relation to the Employment.

Pensionable salary will consist of base salary and payments made under the short-term incentive plan (annual bonus payments).

8. Car

The Director shall be entitled to car usership benefits and private fuel benefits in accordance with the Company's Executive User Car Scheme as published and varied from time to time.

9. Private Medical Insurance

The Director, his wife and dependant children up to age 21, or up to age 25 if in full time education, shall be entitled to participate in a private medical insurance scheme to be provided at the expense of the Company.

10. Holidays

(a) In addition to the usual bank and public holidays the Director shall be entitled to 30 working days' holiday in each Holiday Year to be taken at a time or times to be agreed with him by the Chief Executive of the Company. The Holiday Year will be the twelve month period commencing from the first day of the month in which the Director's birthday falls. Accrued but untaken holiday will lapse at the end of the Holiday Year in which the entitlement arises and may not be carried forward for use in the next Holiday Year unless otherwise agreed with the Chief Executive.

(b) Upon termination of the Employment for whatever reason the Director:

(i) Shall be entitled to payment in lieu of accrued but untaken holiday entitlement for the current Holiday Year; and

(ii) may be required to repay the Company any salary received in respect of holiday taken in excess of his proportionate holiday entitlement.

11. Illness

(a) Should the Director be prevented by sickness, injury or other incapacity from properly performing his duties in the Employment he shall report the fact directly or indirectly to the Chief Executive of the Company as soon as is reasonably practicable.

(b) For sickness, injury or other incapacity of seven days or less, upon his return to work, the Director shall complete an Absence Self Certificate. For sickness, injury or other incapacity of eight days or more the Director must obtain a doctor's statement which he shall submit to the Company at appropriate intervals.

- (c) Provided the Director complies with sub-clauses (a) and (b) above, he shall be entitled to receive his full basic rate of remuneration (to include any statutory sick pay or social security benefits payable) for the first twenty six weeks of any sickness, injury or other incapacity in any one year of employment under this Agreement (whether such weeks are consecutive or in aggregate). For the next twenty six week period, payment shall be at half the Director's basic rate of remuneration for so much of the next twenty six week period as the Director suffers sickness, injury or other-incapacity in any one year.
- (d) For any injury or illness in excess of eight days or in the case of persistent or recurring injury or illness, the Company shall be entitled to approach the Director's own doctor having obtained on each occasion the Director's specific prior consent and/or to require the Director to attend a medical examination with a doctor nominated by the Company at the Company's expense.

12. **Confidentiality**

The Director must not at any time without the previous consent in writing of the Company, other than in the course of his duties, divulge or make known to anyone any secrets or any technical, commercial, financial or other information of a confidential nature relating to the business or customers of the Group save to the extent that such information has become a matter of public record. All papers and documents used by the Director in the course of his Employment are and will remain the property of the Company and must be delivered up to the Company on termination of the Agreement. This clause operates independently of the existence of the Agreement.

13. **Non-Solicitation**

By accepting this Employment and continuing to be employed by the Company the Director undertakes and covenants with the Company that unless otherwise agreed and consented to by the Company, the Director shall not during this Employment nor for a period of twelve months it has come to an end solicit, entice, procure or endeavour to persuade any other director, officer, manager, supervisor or senior technical or sales employee of the Company or the Group with whom the Director shall have had personal contact or dealings during the course of his employment to leave the employment of the Group.

14. **Summary Termination**

Without prejudice to any remedy which it may have against the Director for breach or non-performance of any of the provisions of this Agreement, the Company may by notice in writing to the Director. forthwith determine this Agreement if he:

- (a) becomes bankrupt or makes any composition or enters into any deed of arrangement with his creditors; or
- (b) is prevented by law from holding the office of director; or
- (c) is guilty of;
 - (i) any gross misconduct; or
 - (ii) gross negligence in the performance of his duties; or
 - (iii) any breach of any fundamental term of this Agreement; or

- (iv) persistent neglect of his duties or persistent non-observance of any condition of this Agreement (provided that in each case the Company shall first have given due written warning of such neglect or nonobservance as the case may be).

15. Change of Control

15.1 For the purposes of this clause

(a) Relevant Event means either:

- (i) the giving of notice by the Company or the termination of the Director's employment (other than for reason of gross misconduct or material breach of contract on the Director's part (an "excluded reason")); or
- (ii) without a Director's express written consent, after written notice to his Employing Company, and after a, thirty day opportunity for the Employing Company to cure, the continuing occurrence of any of the following events:
 - (a) Inconsistent Duties. A meaningful and detrimental alteration in the Director's position or in the nature or status of his responsibilities from those in effect immediately prior to the Change in Control;
 - (b) Reduced Salary. A reduction of 5% or more by the Employing Company in either of the following: (i) the Director's highest annual base salary rate as in effect at any time during the 12 month period immediately preceding the date of the Change in Control ("Base Salary") (except for a less than 10%, across-the-board Base Salary rate reduction similarly affecting at least 95% of all Employees of the Employing Company); or (ii) the sum of the Director's Base Salary plus target bonus under the Employing Company's short term bonus plan, as in effect immediately prior to the Change in Control (except for a less than 10%, across-the-board reduction of Base Salary plus target bonus under such short term plan similarly affecting at least 95% of all Employees of the Employing Company);
 - (c) Pension and Compensation Plans. The failure by the Employing Company to continue in effect any "pension plan or agreement" or "compensation plan or agreement" in which the Director participates as of the date of the Change in Control or the elimination of the Director's participation in any such plan (except for across-the-board plan changes or terminations similarly affecting at least 95% of all Employees of the Employing Company). For purposes of this subsection (c), a "pension plan or agreement" shall mean any written arrangement executed by an authorized officer of the Employing Company which provides for payments upon retirement; and a "compensation plan or agreement" shall mean any written arrangement executed by an authorized officer of the Employing Company which provides for periodic, nondiscretionary compensatory payments to employees in the nature of bonuses;
 - (d) Relocation. A change in the Director's work location to a location more than 50 miles from the facility where the Director was located immediately prior to the Change in Control, unless such new work location is within 50 miles from the Director's principal place of residence at the time of the change in Control. The acceptance, if any, by the Director by an Employing Company at a work location which is outside the 50 mile radius set forth in this Section shall not be a waiver

of the Director's right to refuse subsequent transfer by the Employing Company to a location which is more than 50 miles from the Director's principal place of residence at the time of the Change in Control, and such subsequent, unconsented transfer shall be "Relevant Event" under this Policy; or

- (e) Benefits and Perquisites. The taking of any action by the Employing Company that would directly or indirectly materially reduce the benefits enjoyed by the Director under the Employing Company's retirement, life insurance, medical, health and accident, disability, deferred compensation or savings plans in which the Director was participating immediately prior to the Change in Control, or the failure by the Employing Company to provide the Director with the number of paid holidays to which the Director is entitled on the basis of years of service with the Employing Company in accordance with the Employing Company's normal annual leave policy in effect immediately prior to the Change in Control (except for across-the-board plan or vacation policy changes or plan terminations similarly affecting at least 95% of all Employees of the Employing Company).

Relevant Event shall not include the Director's Death or Disability. The fact that the Director may be eligible for Retirement shall not prevent him from resigning for a Relevant Event provided a Relevant Event shall have occurred. Any dispute as to whether a Relevant Event shall have occurred or been cured on a timely basis shall be resolved by the relevant PPL Committee; provided, however, that if any member of the relevant PPL Committee is a Director involved in the dispute, such dispute shall be resolved by the PPL Board. Any such resolution by the PPL Committee or the Board, as appropriate, shall be binding on the Employing Company and the Director.

The Relevant Event occurs if the Director's employment is involuntarily terminated by the Employing Company at any time during the 2 year period following a Change in Control for any reason other than for Cause or who shall voluntarily terminate his employment with his Employment Company for a Relevant Event at any time during the 2 year period following a Change of Control. Notwithstanding anything to the contrary above, a Relevant Event does not occur if the Director:

- (a) is on leave of absence as of his Termination Date, unless such Director is capable of returning to work within 12 weeks of such leave of absence from work;
 - (b) voluntarily terminates his employment with the Employing Company other than for a Relevant Event;
 - (c) has his employment terminated by the Employing Company for Cause; or
 - (d) terminates from employment by reason of his Death or Disability.
- (b) Change of Control means where;
- (i) the Company comes under the control of any person or persons acting in concert (as those terms are defined for the time being in the City Code on Takeovers and Mergers) not having control of the Company at the date of this letter; or
 - (ii) the person or persons having the right to control, directly or indirectly, a majority of the votes which may ordinarily be cast at general meetings of the Company or the right to control the composition of the Board, cease to have those rights.

Change of Control does not occur unless PPL does not maintain at least 50% equity or voting interest.

- (c) To the extent that terms used in this clause 15 are not defined elsewhere in this Agreement, the definitions set out in clause 46 of the Electricity Supply Pension Scheme shall apply.

15.2 If a Relevant Event occurs the Company shall

- (a) pay to the Director within 7 days of the termination of his employment a sum equal to one and a half (1.5) times his taxable pay (as would fall to be included in the amount shown on the annual forms P60 and P11D) received from the Company during the twelve months immediately preceding the Change of Control;
- (b) procure that the Director's benefits under the Electricity Supply Pension Scheme which have accrued at the date of termination of employment are augmented by crediting him with two additional years' Pensionable Service subject to the Director contributing 6% of his Pensionable Salary to the pension scheme and the Company shall make such additional contributions to the Electricity Supply Pension Scheme as are necessary to secure that augmentation and, if this is not possible, due to Inland Revenue limits, procure the payment of such cash sum as is of equivalent value;
- (c) procure the payment of pension benefits to the Director by the Electricity Supply Pension Scheme on the basis of his termination of employment being caused by reorganisation, such benefits to include the augmentation described in 15.2(b) above.

15.3 Subject to any rights accrued at the date of termination of the Director's employment under the provisions of any pension scheme of the Company, any payment by the Company pursuant to this clause 15 shall be made in full and final settlement of all and any claims arising from or in connection with the Director's employment or its termination or his office of Director and its loss in each case in respect of the Company or the Group.

15.4 All payments to be made pursuant to this clause 15 shall be paid less any necessary withholdings.

15.5 The Director hereby agrees that he shall not bring any claim before any court or employment tribunal relating to his employment and/or its termination except in so far as such claim is brought solely to enforce the provisions of this clause. The Director agrees to enter into an agreed form of compromise agreement on or around the date of termination of his employment to give effect to this clause.

16. **Resignation from Directorships Following Termination of Employment**

Upon termination of this Employment for whatever reason the Director must forthwith tender his resignation as a Director of any Group company without compensation. The Director hereby irrevocably authorises the Company to appoint some person in his name and on his behalf to sign any documents and do any things necessary to give effect thereto, if the Director shall fail to sign or do the same himself. The Director shall also promptly return all Company property, equipment and documents (including all copies) to the Company.

17. **Effect of Termination of this Agreement**

The expiry or termination of this Agreement howsoever arising shall not operate to affect any of the provisions hereof which are expressed to operate or have effect thereafter and shall not prejudice the exercise of any right to remedy of either party accrued beforehand.

18. **Disciplinary and Grievance Procedure**

If the Director is dissatisfied with any disciplinary action or has any grievance concerning this Employment he should raise the matter with the Chief Executive.

19. **Patents, Secrets, Processes and Improvements**

- (a) Any discovery or invention or secret process or improvement in procedure made or discovered by the Director while in the service of the company whether before or after the date of this Agreement with or in any way affecting or relating to the business of the Company or of any company in the Group or capable of being used or adapted for the use therein or in connection therewith shall forthwith be disclosed to the Company and shall belong to and be the absolute property of the Company:
- (b) The Director shall, if and when required so to do by the Company at the expense of the Company, apply to join with the Company in applying for letters patent or other equivalent protection in the United Kingdom and in any part of the world for any such discovery, invention, process or improvement as aforesaid and shall at the expense of the Company execute and do all instruments and things necessary for vesting the said letters patent or other equivalent protection when obtained and all rights, title to, and interest in the same in the Company absolutely and as sole beneficial owner or in such other person as the Company may specify. The Director hereby irrevocably appoints the Company to be his attorney in his name and on his behalf to execute and to do any such instrument or thing and generally to use his name for the purpose of giving to the Company the full benefit of the provisions of this clause but not otherwise in favour of any third party a certificate in writing signed by any Director or the Secretary of the Company that any instrument or act falls within the authority hereby conferred shall be conclusive evidence that such is the case.

20. **Health and Safety**

The Company attaches great importance to the health and safety of its employees and recognises a duty to prevent where possible personal injury by ensuring that the design, construction, operation and maintenance of all equipment, facilities and systems are in accordance with the Health and Safety requirements of the Company. In order to achieve this aim the Director must ensure compliance with all reasonable requirements of the Company in relation to the employees whom the Director controls in order to prevent injury to themselves and others.

21. **Gratuities**

The Manager must not under any circumstances either directly or indirectly receive or accept for his own benefit any commission, rebate, discount, gratuity, profit or other benefits from any person, company or firm having business transactions with the Company or any Associated Company except those gifts or benefits of a token nature and insignificant in value (such as diaries, calendars, writing instruments and business lunches).

22. **Governing Law and Entire Agreement**

- (a) This Agreement and the Employment shall be governed by and construed in accordance with English law in all respects. The parties agree that the English Courts and Tribunals shall have exclusive jurisdiction to determine any disputes or claims arising under or in connection with this Agreement, the Employment or the termination of either or both of them.
 - (b) Except as otherwise expressly provided by its terms and for any detailed rules (not being inconsistent with the express terms hereof) from time to time laid down by the Company, this Agreement represents the entire understanding, and supersedes any previous agreement, between the parties in relation to the Employment.
-

23. **Notices**

Any notice to be given hereunder shall be in writing. Notice to the Director shall be sufficiently served by being delivered personally to him or by being sent by first class post addressed to him at his usual or last know place of abode. Any notice if so posted shall be deemed served upon the first day following that on which it was posted. Notice to the Company shall be sufficiently served by being delivered to the Company Secretary at the Registered Office of the Company.

SIGNED on behalf of the Company
by R A Symons, Chief Executive
in the presence of:

/s/ R. A. Symons

Witness signature Name
(block capitals)
Address

/s/ Beverly Collins
c/o Western Power Distribution
Avon Bank, Feeder Road, Bristol

SIGNED by the Director
P Swift
in the presence of:

/s/ Philip Swift
c/o Western Power Distribution
Avon Bank, Feeder Road, Bristol

Witness signature Name
(block capitals)
Address

D. Harris
c/o Western Power Distribution
Avon Bank, Feeder Road, Bristol

Amendment to Service Agreement

Between the Company and Phil Swift

The following amendments will be made to your Service Agreement dated 13 August 2013 with effect from 2 March 2016:

1.1 The following will be inserted as new paragraph (d) into clause 5 (Remuneration):

"(d) In addition to the salary referred to above, the Director will also receive an amount calculated at an annual rate of 30% of his salary and annual bonuses under the Directors' Results Related Bonus Scheme payable to him by the Company from time to time. This annual amount will accrue with effect from 3 March 2016 from day to day and be payable in instalments monthly. It will only be payable during the Director's Employment for so long as he is not a Contributor to the Electricity Supply Pension Scheme. It will be non pensionable."

1.2 Clause 7 (Pension) shall be deleted and replaced with the following:

"From 3 March 2016 the Director shall cease to be a contributing member of the Electricity Supply Pension Scheme and shall accordingly cease to accrue pensionable service under the Electricity Supply Pension Scheme. He shall not be entitled to rejoin the Electricity Supply Pension Scheme as a contributing member without the agreement of the Company. The Employment of the Director shall cease to be contracted-out with reference to the Electricity Supply Pension Scheme with effect from 3 March 2016. From that date the Director's death and retirement benefits shall be provided in accordance with a letter from the Company to the Director dated 2 March 2016."

AMENDMENT NO. 7

TO

PPL EXECUTIVE DEFERRED COMPENSATION PLAN

WHEREAS, PPL Services Corporation ("PPL") has adopted the PPL Officers Deferred Compensation Plan ("Plan") effective July 1, 2000; and

WHEREAS, the Plan was amended and restated effective November 1, 2003, and subsequently amended by Amendment No. 1, 2, 3, 4, 5 and 6; and

WHEREAS, PPL desires to further amend the Plan to (1) provide Participants the opportunity to elect a specified time and form of payment for amounts of deferred cash compensation in each calendar year, (2) provide that employees with eligible compensation anticipated to exceed Code Section 401(a)(17) limits are eligible to participate, and (3) certain other changes;

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Effective January 1, 2019, Section 1.1 of the Plan, **Purpose**, is hereby amended to read as follows:

"1.1 The purpose of this Executive Deferred Compensation Plan is to provide certain executive officers, senior management employees and eligible highly compensated employees of PPL and other Participating Companies a financially advantageous method to defer earned income. This Plan received account balance from the terminated PPL Montana Officers Deferred Compensation Plan and the terminated PPL Global Officers Deferred Compensation Plan, effective November 1, 2003, by reason of the merger of those two terminated plans into this Plan as of that date."

- Effective January 1, 2019, Section 2.1 of the Plan, **Account**, is hereby amended to read as follows:

"2.1. **Account**" means the account of Deferred Cash Compensation, Deferred Cash Awards and Deferred Company Contributions established solely as a bookkeeping entry and maintained under Article V of this Plan. This account includes the balance of any account from the PPL Global Officers Deferred Compensation Plan and/or the PPL Montana Officers Deferred Compensation Plan as of the date those Plans were terminated and merged into this Plan. Each Account shall have sub-accounts for each calendar year of a Participant's participation in the Plan for (i) Deferred Cash Compensation, (ii) Deferred Cash Awards, and (iii) Deferred Company Contributions. Each Account will classify each sub-account as either "Pre-2005 Amounts" or "Post-2004 Amounts" (each defined in Section 6.1)."

3. Effective January 1, 2019, Article II of the Plan, **Definitions**, shall be amended to add the following new sections and the remaining sections shall be renumbered:

“2.8 **“Deferred Company Contributions”** means the company contributions credited to a Participant’s Account under Sections 4.11 and 4.12.

2.9 **“Deferred Compensation”** means Deferred Cash Compensation and Deferred Cash Award.

2.10 **“Disability” or “Disabled”** means a Participant who is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Participant’s employer.

2.11 **“Fixed Contributions”** means the company contributions credited to a Participant Account under Section 4.12.

2.24 **“Total Amount Payable”** means the amount credited to a Participant’s Account plus the calculated rate of return pursuant to Section 5.1(e) but excluding amounts in a Participant’s Account attributable to Deferred Company Contributions plus the calculated rate of return on such contributions pursuant to Section 5.1(e).”

4. Effective January 1, 2019, Section 3.1 of the Plan, **“Eligibility”**, is hereby amended to read as follows:

“3.1 Any salaried employee who will have Cash Compensation and targeted Cash Awards anticipated to exceed the annual income ceiling of Code Section 401(a)(17), determined as of the beginning of a calendar year, shall be eligible.”

5. Effective January 1, 2019, Article IV of the Plan, **Deferred Cash Compensation and Deferred Cash Awards**, is hereby amended by adding a new Section 4.6 and renumbering the remaining sections accordingly:

“4.6 If a Participant chooses to defer Cash Compensation and/or Cash Awards for the upcoming calendar year, the election shall provide the Participant the opportunity to elect the following regarding that year’s deferral and associated Deferred Company Contributions: (i) the form of payment upon his or her Separation from Service, (ii) the form of payment upon his or her becoming Disabled but without incurring a Separation from Service, and (iii) a specified date, at least twelve (12) months after the deferral election becomes irrevocable and associated form of payment. A Participant may elect a different

payment form for each payment event specified above. Deferral elections under this Plan shall be made in the form and manner prescribed by the CLC.”

Effective January 1, 2015, Section 4.12 of the Plan is hereby amended to read as follows:

“4.12 The Account of any Participant hired on or after January 1, 2012, with Deferred Cash Compensation and Deferred Cash Awards for the calendar year shall be increased by a Matching Contribution. The Matching Contribution shall be an amount equal to 75% of the aggregate Deferred Compensation that does not exceed 6% of Cash Compensation and Cash Award (effective January 1, 2019, an amount equal to 100% of the aggregate Deferred Compensation that does not exceed 3% of Cash Compensation and Cash Award and an additional amount equal to 50% of the aggregate Deferred Compensation that does not exceed the next 3% of Cash Compensation and Cash Award), minus the maximum amount of Matching Contributions that could have been made to the Participant’s Accounts in the PPL Retirement Savings Plan for that calendar year if the Participant made the maximum employee contributions permitted. Any employee hired after January 1, 2012 who is eligible under Article III shall receive a Fixed Contribution to an Account of that employee. The Fixed Contribution shall be an amount equal to 3% of Cash Compensation and Cash Award paid for the year minus the amount of the Fixed Contribution made to the Participant’s Accounts in the PPL Retirement Savings Plan for that calendar year.”

7. Effective January 1, 2016 except as otherwise provided herein, Section 4.13 of the Plan is hereby amended to read as follows:

“4.13 For each year a salaried employee is eligible for the make-up contribution described herein, in accordance with Section 3.1, there shall be an Account for that employee to which shall be credited an amount equal to 7.5% of the excess of the Cash Compensation and Cash Awards paid for the year over the Code Section 401(a)(17) annual income ceiling. Except for the absence of any deferral by the employee, this Account shall constitute an “Account” under this Plan and subject to all provisions herein.”

8. Effective January 1, 2019, Section 4.13 of the Plan is hereby deleted.

Effective January 1, 2019, Section 6.1 of the Plan is hereby amended to read as follows:

“6.1 Time of Payment.

(a) Pre-2005 Amounts. When the Participant's employment with PPL terminates for any reason, including retirement, payments will commence immediately for the amount of Participant's Account as of December 31, 2004, plus applicable earnings under Section 5.4 to the date of payment (“Pre- 2005 Amount”).

(b) Post-2004 Amounts.

a. With respect to a particular calendar year's Deferred Compensation and Deferred Company Contributions, for the portion and amount of Participant's Account attributable to deferrals after December 31, 2004, and applicable earnings under Section 5.4 (“Post-2004 Amount”) payments will begin on the earlier of:

- i. The date that is six months after Separation from Service
- ii. Within thirty (30) days of Disability
- iii. Specified date, as elected by the Participant if applicable.

If there is not a valid election on file with respect to any Deferred Compensation and Deferred Company Contributions, amounts will be paid on the date that is six months after Separation from Service.”

10. Effective January 1, 2018, Section 6.2 of the Plan is hereby amended to read as follows:

“6.2 Form of Payment

(a) (1) Pre-2005 Amounts. The Total Amount Payable with respect to Pre-2005 Amounts shall be paid to Participant in a single sum or in annual installments up to a maximum of fifteen (15) years, as elected by the Participant. The election must be made before the applicable Cash Compensation and/or Cash Award is deferred and may not be changed with respect to Cash Compensation and/or Cash Award and associated Company contributions once it has been deferred. Any election made less than 12 months prior to the date that the amount is to be paid under the election shall be void. For Pre-2005 Amounts in a Participant's Account for which the Participant did not make a valid election, the amounts shall be paid in the form of a single lump-sum payment.

(2) Post-2004 Amounts. Post-2004 Amounts shall be paid to Participant as elected by Participant for the applicable payment event, in a single sum or in annual installments up to a maximum of fifteen (15) years for each calendar year's Deferred Compensation and Deferred Company Contributions. The election must be made and become irrevocable pursuant to the timing rules set forth for deferral elections under Article IV. For Post-2004 Amounts in a Participant's Account for which the Participant did not make a valid election, the amounts shall be paid in the form of a single lump-sum payment."

IN WITNESS WHEREOF, this Amendment No. 7 is executed this _____ day of _____, 2018.

PPL SERVICES CORPORATION

By: _____

Thomas J. Lynch

Vice President & Chief Human Resources Officer

PPL Corporation
Subsidiaries of the Registrant
At December 31, 2018

Exhibit 21

The following listing of subsidiaries omits subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2018.

Company Name Business Conducted under Same Name	State or Jurisdiction of Incorporation/Formation
CEP Reserves, Inc.	Delaware
Kentucky Utilities Company	Kentucky and Virginia
LG&E and KU Energy LLC	Kentucky
Louisville Gas and Electric Company	Kentucky
PMDC International Holdings, Inc.	Delaware
PPL (Barbados) SRL	Barbados
PPL Capital Funding, Inc.	Delaware
PPL Electric Utilities Corporation	Pennsylvania
PPL Energy Funding Corporation	Pennsylvania
PPL Global, LLC	Delaware
PPL UK Management Partners	England
PPL UK Holdings, LLC	Delaware
PPL UK Resources Limited	England and Wales
PPL WPD Limited	England and Wales
Western Power Distribution (East Midlands) plc	England and Wales
Western Power Distribution (South West) plc	England and Wales
Western Power Distribution (West Midlands) plc	England and Wales

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-223142 and 333-223140 on Form S-3 and Registration Statement Nos. 333-215193, 333-209618, 333-181752, and 333-197629 on Form S-8 of our reports dated February 14, 2019, relating to the consolidated financial statements of PPL Corporation and subsidiaries, and the effectiveness of PPL Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of PPL Corporation for the year ended December 31, 2018.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey

February 14, 2019

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-223142-04 on Form S-3 of our report dated February 14, 2019, relating to the consolidated financial statements of PPL Electric Utilities Corporation and subsidiaries appearing in this Annual Report on Form 10-K of PPL Electric Utilities Corporation for the year ended December 31, 2018.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey

February 14, 2019

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-223142-03 on Form S-3 of our report dated February 14, 2019, relating to the consolidated financial statements and financial statement schedule of LG&E and KU Energy LLC and subsidiaries appearing in this Annual Report on Form 10-K of LG&E and KU Energy LLC for the year ended December 31, 2018.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 14, 2019

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-223142-02 on Form S-3 of our report dated February 14, 2019, relating to the financial statements of Louisville Gas and Electric Company appearing in this Annual Report on Form 10-K of Louisville Gas and Electric Company for the year ended December 31, 2018.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 14, 2019

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-223142-01 on Form S-3 of our report dated February 14, 2019, relating to the financial statements of Kentucky Utilities Company appearing in this Annual Report on Form 10-K of Kentucky Utilities Company for the year ended December 31, 2018.

/s/ Deloitte & Touche LLP

Louisville, Kentucky

February 14, 2019

PPL CORPORATION
 2018 ANNUAL REPORT
 TO THE SECURITIES AND EXCHANGE COMMISSION
 ON FORM 10-K

POWER OF ATTORNEY

The undersigned directors of PPL Corporation, a Pennsylvania corporation, that is to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, its Annual Report on Form 10-K for the year ended December 31, 2018 ("Form 10-K Report"), do hereby appoint each of William H. Spence, Vincent Sorgi, Joanne H. Raphael, Jennifer L. McDonough and Frederick C. Paine, and each of them, their true and lawful attorney, with power to act without the other and with full power of substitution and resubstitution, to execute for them and in their names the Form 10-K Report and any and all amendments thereto, whether said amendments add to, delete from or otherwise alter the Form 10-K Report, or add or withdraw any exhibits or schedules to be filed therewith and any and all instruments in connection therewith. The undersigned hereby grant to each said attorney full power and authority to do and perform in the name of and on behalf of the undersigned, and in any and all capacities, any act and thing whatsoever required or necessary to be done in and about the premises, as fully and to all intents and purposes as the undersigned might do, hereby ratifying and approving the acts of each of the said attorneys.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands this 14th day of February, 2019.

/s/ Rodney C. Adkins

Rodney C. Adkins

/s/ William H. Spence

William H. Spence

/s/ John W. Conway

John W. Conway

/s/ Natica von Althann

Natica von Althann

/s/ Steven G. Elliott

Steven G. Elliott

/s/ Keith H. Williamson

Keith H. Williamson

/s/ Venkata Rajamannar Madabhushi

Venkata Rajamannar Madabhushi

/s/ Phoebe A. Wood

Phoebe A. Wood

/s/ Craig A. Rogerson

Craig A. Rogerson

/s/ Armando Zagalo de Lima

Armando Zagalo de Lima

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2018;
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

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

/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 annual report on Form 10-K of PPL Corporation (the "registrant") for the year ended December 31, 2018;
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

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

/s/ Vincent Sorgi

Vincent Sorgi

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2018;
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

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

/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 annual report on Form 10-K of PPL Electric Utilities Corporation (the "registrant") for the year ended December 31, 2018;
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

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

/s/ Marlene C. Beers

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 annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2018;
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

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

/s/ Paul W. Thompson

Paul W. Thompson
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of LG&E and KU Energy LLC (the "registrant") for the year ended December 31, 2018;
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

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
LG&E and KU Energy LLC

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2018;
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

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

/s/ Paul W. Thompson

Paul W. Thompson
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Louisville Gas and Electric Company (the "registrant") for the year ended December 31, 2018;
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

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

/s/ Kent W. Blake

Kent W. Blake
 Chief Financial Officer
 (Principal Financial Officer)
 Louisville Gas and Electric Company

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2018;
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

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

/s/ Paul W. Thompson

Paul W. Thompson
 Chairman of the Board, Chief Executive Officer and President
 (Principal Executive Officer)
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this annual report on Form 10-K of Kentucky Utilities Company (the "registrant") for the year ended December 31, 2018;
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

The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

/s/ Kent W. Blake

Kent W. Blake
Chief Financial Officer
(Principal Financial Officer)
Kentucky Utilities Company

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2018

In connection with the annual report on Form 10-K of PPL Corporation (the "Company") for the year ended December 31, 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: February 14, 2019

/s/ William H. Spence

William H. Spence
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
PPL Corporation

/s/ Vincent Sorgi

Vincent Sorgi
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2018

In connection with the annual report on Form 10-K of PPL Electric Utilities Corporation (the "Company") for the year ended December 31, 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 and Principal Accounting Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 14, 2019

/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-K FOR THE YEAR ENDED DECEMBER 31, 2018

In connection with the annual report on Form 10-K of LG&E and KU Energy LLC (the "Company") for the year ended December 31, 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: February 14, 2019

/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-K FOR THE YEAR ENDED DECEMBER 31, 2018

In connection with the annual report on Form 10-K of Louisville Gas and Electric Company (the "Company") for the year ended December 31, 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: February 14, 2019

/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-K FOR THE YEAR ENDED DECEMBER 31, 2018

In connection with the annual report on Form 10-K of Kentucky Utilities Company (the "Company") for the year ended December 31, 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: February 14, 2019

/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.

PPL CORPORATION AND SUBSIDIARIES
LONG-TERM DEBT SCHEDULE
(Unaudited)
(Millions of Dollars)

	Interest Rate	Maturity Date	December 31, 2018
PPL			
U.S.			
PPL Capital Funding			
<i>Senior Unsecured Notes</i>			
69352PAD5	4.200%	06/15/2022	\$ 400
69352PAE3	3.500%	12/01/2022	400
69352PAF0	3.400%	06/01/2023	600
69352PAH6	4.700%	06/01/2043	300
69352PAK9	3.950%	03/15/2024	350
69352PAJ2	5.000%	03/15/2044	400
69352PAL7	3.100%	05/15/2026	650
69352PAM5	4.000%	09/15/2047	500
Total Senior Unsecured Notes			3,600
<i>Junior Subordinated Notes</i>			
69352PAC7 ¹	5.468%	03/30/2067	480
69352P202	5.900%	04/30/2073	450
Total Junior Subordinated Notes			930
Total PPL Capital Funding Long-term Debt			4,530
PPL Electric			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
Total PPL Electric Long-term Debt			3,739
LKE			
<i>Senior Unsecured Notes</i>			
<i>Term Loan</i>			
<i>First Mortgage Bonds</i>			
Total LKE Long-term Debt ²			4,891
Total U.S. Long-term Debt			13,160

	Interest Rate	Maturity Date	December 31, 2018
U.K.			
<i>Senior Unsecured Notes</i>			
USG7208UAA90	5.375%	05/01/2021	500
USG9796VAE32	7.375%	12/15/2028	202
XS1315962602	3.625%	11/06/2023	637
XS0627333221	5.250%	01/17/2023	892
XS0568142482	6.250%	12/10/2040	319
XS0568142052	6.000%	05/09/2025	319
XS0627336321	5.750%	04/16/2032	1,020
XS0979476602	3.875%	10/17/2024	510
XS0061222484	9.250%	11/09/2020	191
XS0280014282	4.804%	12/21/2037	287
XS0496999219	5.750%	03/23/2040	255
XS0165510313	5.875%	03/25/2027	319
XS0496975110	5.750%	03/23/2040	255
XS1718489898	2.375%	05/16/2029	319
XS1893807120	3.500%	10/16/2026	446
Total Senior Unsecured Notes			6,471
<i>Index-Linked Notes</i> ³			
XS0632038666	2.671%	06/01/2043	218
XS0974143439	1.676%	09/24/2052	153
XS0277685987	1.541%	12/01/2053	190
XS0279320708	1.541%	12/01/2056	217
N/A ⁴	0.498%	05/31/2026	139
XS1577901702	0.010%	03/14/2029	68
XS1797949267	0.010%	03/26/2036	39
XS1821535678	0.010%	05/16/2028	39
Total Index-Linked Notes			1,063
Total U.K. Long-term Debt			7,534
Total Long-term Debt Before Adjustments			20,694
Fair market value adjustments			16
Unamortized premium and (discount), net			9
Unamortized debt issuance costs			(120)
Total Long-term Debt			20,599
Less current portion of Long-term Debt			530
Total Long-term Debt, noncurrent			\$ 20,069

	Interest Rate	Maturity Date	December 31, 2018
PPL Electric			
<i>Senior Secured Notes/First Mortgage Bonds</i>			
524808BW1 ⁵	1.800%	02/15/2027	\$ 108
524808BX9 ⁵	1.800%	09/01/2029	116
70869MAC8	4.000%	10/01/2023	90
69351UAG8	5.150%	12/15/2020	100
69351UAP8	3.000%	09/15/2021	400
69351UAQ6	2.500%	09/01/2022	250
69351UAH6	6.450%	08/15/2037	250
69351UAM5	6.250%	05/15/2039	300
69351UAN3	5.200%	07/15/2041	250
69351UAR4	4.750%	07/15/2043	350
69351UAS2	4.125%	06/15/2044	300
69351UAV7	4.150%	06/15/2048	400
69351UAT0	4.150%	10/01/2045	350
69351UAU7	3.950%	06/01/2047	475
Total Senior Secured Notes			3,739
Total Long-term Debt Before Adjustments			3,739
Unamortized discount			(18)
Unamortized debt issuance costs			(27)
Total Long-term Debt			3,694
Less current portion of Long-term Debt			
Total Long-term Debt, noncurrent			\$ 3,694
KE			
<i>Senior Unsecured Notes</i>			
50188FAD7	3.750%	11/15/2020	\$ 475
50188FAE5	4.375%	10/01/2021	250
Total Senior Unsecured Notes			725
LG&E			
<i>First Mortgage Bonds</i>			
			1,624
<i>Term Loan</i>			
			200
KU			
<i>First Mortgage Bonds</i>			
			2,342
Total Long-term Debt Before Adjustments			4,891
Unamortized discount			(13)
Unamortized debt issuance costs			(26)
Total Long-term Debt			4,852
Less current portion of Long-term Debt			530
Total Long-term Debt, noncurrent ²			4,322

	Interest Rate	Maturity Date	December 31, 2018
G&E			
Term Loan	2.97%	10/25/2019	200
<i>First Mortgage Bonds</i>			
473044BV6 ⁵	1.920%	09/01/2026	23
546676AU1	5.125%	11/15/2040	285
546676AV9	4.650%	11/15/2043	250
546676AW7	3.300%	10/01/2025	300
546676AX5	4.375%	10/01/2045	250
546749AM4 ⁵	1.500%	10/01/2033	128
546749AK8 ⁵	2.200%	02/01/2035	40
546749AN2 ⁵	2.550%	11/01/2027	35
546751AH1 ⁵	1.250%	06/01/2033	35
546751AJ7 ⁵	1.250%	06/01/2033	31
896221AD0	3.750%	06/01/2033	60
896224AZ5 ⁵	2.550%	11/01/2027	35
896224AX0 ⁵	2.300%	09/01/2026	27
896224AY8 ⁶	1.880%	09/01/2044	125
Total Long-term Debt Before Adjustments			1,824
Unamortized discount			(4)
Unamortized debt issuance costs			(11)
Total Long-term Debt			1,809
Less current portion of Long-term Debt			434
Total Long-term Debt, noncurrent			1,375

	Interest Rate	Maturity Date	December 31, 2018
<i>First Mortgage Bonds</i>			
144838AA7 ⁶	1.770%	02/01/2032	\$ 21
144838AB5 ⁶	1.770%	02/01/2032	2
144838AD1 ⁵	1.050%	09/01/2042	96
14483RAQ0	3.375%	02/01/2026	18
14483RAM9 ⁶	1.780%	10/01/2034	50
14483RAN7 ⁶	1.780%	02/01/2032	78
14483RAP2 ⁶	1.770%	10/01/2034	54
491674BE6	3.250%	11/01/2020	500
491674BG1/BF3	5.125%	11/01/2040	750
491674BJ5	4.650%	11/15/2043	250
491674BK2	3.300%	10/01/2025	250
491674BL0	4.375%	10/01/2045	250
587824AA1 ⁶	1.750%	02/01/2032	8
587829AC6 ⁶	1.730%	05/01/2023	13
62479PAA4 ⁶	1.770%	02/01/2032	2
Total Long-term Debt Before Adjustments			2,342
Unamortized discount			(8)
Unamortized debt issuance costs			(13)
Total Long-term Debt			2,321
Less current portion of Long-term Debt			96
Total Long-term Debt, noncurrent			\$ 2,225

(1) Securities are in a floating rate mode through maturity.

(2) Excludes \$650 million of intercompany notes between LKE and an affiliate due 2026 and 2028.

(3) Principal amount of the notes are adjusted based on changes in a specified index, as detailed in the terms of the related indentures.

(4) No CUSIP - Facility loan.

(5) Securities are currently in a term rate mode. Securities may be put back to the company on a date prior to the stated maturity date.

(6) Securities have a floating rate of interest that periodically resets. Securities may be put back to the company on a date prior to the stated maturity date.

Tab	Description
1	Quarterly and Annual LG&E and KU Financial Statements for 2018
2	Transfer of Assets
3	Intercompany Monthly Invoices
4	Intercompany Power Sales and Purchases
5	Costs of Jointly Owned Trimble County Units
6	Allocation of Jointly-Used Buildings and Equipment
7	Costs of Jointly Owned Combustion Turbines
8	Cash Collected and Paid by LG&E on Behalf of KU
9	Cost Allocation Manual
10	Virginia State Corporation Commission - 2018 Annual Report of Affiliate Transactions
11	Entity Changes Occurring in 2018
12	LG&E and KU Services Company 2018 FERC Form 60
13	Schedule of Professional Employees Transferred in 2018
14	Costs of Jointly Owned Solar Facility

Transfer of Assets

The following assets were transferred from LG&E to KU in 2018:

March 2018	Padmount transformer, 3 phase, 2500 KVA	\$ 25,064.92
March 2018	Padmount transformer, 3 phase, 2500 KVA	24,327.99
March 2018	Pole transformer, single phase, 37.5 KVA	4,985.75
March 2018	254 Itron meters	84,861.10
April 2018	Spare breaker	53,217.54
June 2018	Pole transformer, single phase, 167 KVA	286.40
June 2018	Spare breaker	48,176.40
June 2018	Spare breaker	42,031.09
Sept. 2018	Pole transformer, single phase, 37.5 KVA	1,780.59
Sept. 2018	Padmount transformer, 3 phase, 2500 KVA	8,907.96
Dec. 2018	Padmount transformer, 3 phase, 2000 KVA	25,655.63
Dec. 2018	Padmount transformer, 3 phase, 2000 KVA	9,622.65

The following assets were transferred from KU to LG&E in 2018:

March 2018	Padmount transformer, 3 phase, 2500 KVA	\$ 26,856.94
March 2018	Padmount transformer, 3 phase, 1000 KVA	8,210.78
March 2018	Pole transformer	1,277.04
March 2018	Pole transformer, single phase, 25KVA, 120/240V	1,535.18
April 2018	Spare breaker	45,700.57
April 2018	Transformer	75,730.00
June 2018	Spare breakers (3)	263,932.61
Dec. 2018	Pole transformer, single phase, 37.5 KVA	1,200.83

INTERCOMPANY MONTHLY INVOICES

Monthly invoices are prepared for reimbursement of non-fuel related expenses incurred by LG&E or KU for LG&E, KU, LG&E and KU Services Company (LKS), LG&E and KU Energy LLC (LKE) and subsidiaries. The invoices are provided to LKS, LKE, and subsidiaries by the 10th business day of the subsequent month with payment due by the 13th business day of the month.

The invoices and cash disbursement requests related to fuel and fuel-related products are paid throughout the month whenever cumulative unreimbursed amounts of invoices exceed \$1 million. All billings between the regulated utilities (LG&E/KU) and non-regulated entities (LKS/LKE) are billed and settled on a net basis.

Monthly reconciliation and balancing procedures are performed for all entities receiving and providing intercompany charges to ensure the accuracy of such transactions.

In addition, monthly charges from PPL Corporation and its subsidiaries are received by LKS. Certain of these transactions which are directly attributable to LG&E and KU are charged to LG&E and KU, but are billed and settled through LKS.

LG&E and KU have a service agreement in place to provide rental of data center facilities to a subsidiary of PPL Corporation. Data center rental and telecommunication expenses are billed and settled by LKS on behalf of LG&E and KU to PPL EU Services Corporation. Mutual assistance services and sale of goods not readily available from the market are billed by LG&E and KU to PPL Electric Utilities, Inc. (and vice versa) as incurred, and settled through LG&E, KU or LKS. No sales or purchases of goods not readily available from the market were incurred in 2018.

INTERCOMPANY POWER SALES AND PURCHASES

Monthly journal entries are prepared for off-system sales, off-system and native load purchases, and intercompany power sales and purchases between LG&E and KU. The After-the-Fact Billing system (AFB) is used to stack hourly energy, which allocates energy sources (generation and purchased power) to energy sinks (KU native load, LG&E native load and off-system sales (OSS)). The stacking is performed based on the energy cost where lowest cost energy is allocated to native load and highest cost energy is allocated to OSS, consistent with the companies' Power Supply System Agreement.

Outputs from the AFB program (queries) are used as inputs into an Excel spreadsheet. The spreadsheet calculates the allocation of third party and intercompany purchases between LG&E and KU. It also calculates the split between native load and off-system purchases, and uses the generation expenses for both companies to calculate the allocation of OSS between the companies.

COSTS OF JOINTLY OWNED TRIMBLE COUNTY UNITS

LG&E and KU, together with Illinois Municipal Electric Agency and Indiana Municipal Power Agency (IMEA & IMPA), jointly own Trimble County Unit 2 (TC2), a 732 net MW summer capacity coal-fired unit. LG&E also owns 75% of Trimble County Unit 1 (TC1), a 493 net MW summer capacity coal-fired unit, with IMEA & IMPA owning the remaining 25%. The ownership of these two coal-fired units is depicted in the table below.

	TC1	TC2	TC 2 LG&E - KU only
LG&E	75.00%	14.25%	19.00%
KU		<u>60.75%</u>	<u>81.00%</u>
Total LG&E and KU		<u>75.00%</u>	<u>100.00%</u>
IMEA/IMPA	<u>25.00%</u>	<u>25.00%</u>	
Total ownership	<u>100.00%</u>	<u>100.00%</u>	

All capital costs and operation and maintenance expense charges for TC2 are allocated among the joint owners according to their respective ownership percentages, with LG&E's and KU's allocated 75% charged 81% to KU and 19% to LG&E. All capital costs and operation and maintenance expense charges for TC1 are allocated among the joint owners according to their respective ownership percentages, with LG&E charged 75% of the charges. Fuel expenses are allocated based on the percentage of total generation sent to the joint owners.

All capital costs and operation and maintenance expense charges incurred for both TC2 and TC1 are allocated 25% to IMEA & IMPA. LG&E's and KU's combined 75% of these costs is allocated based on the nameplate ratings and percentage ownership, with 52% charged to LG&E and 48% charged to KU.

ALLOCATION OF JOINTLY-USED BUILDINGS AND EQUIPMENT

LG&E Center

The LG&E Center is owned by a third party and leased by LG&E and KU Energy LLC. Expenses incurred for renting a portion of the LG&E Center are billed to affiliates of LKE by its billing agent, LG&E and KU Services Company (LKS), for the occupation of office space by employees of LKS, LG&E and KU.

The monthly allocation of rent expense for the LG&E Center (comprised of a portion of the basement, a portion of the first floor (lobby), the second through sixteenth floors, a portion of the eighteenth floor, the twentieth floor, the twenty-third floor, and common areas for which LKE is billed) is based on the Number of Employees ratio as described in the Cost Allocation Manual. Charges are allocated to LG&E, KU and LG&E and KU Capital LLC (LKC). The operation and maintenance expenses are allocated for the LG&E Center, which is based on the Number of Employees ratio as described in the Cost Allocation Manual. Expenses are charged to LKE in equal portions over each annual period and adjusted annually. These expenses are not considered part of LKE's minimum lease payments.

Jointly-Used Assets

Jointly-Used Assets are buildings and related assets such as parking lots and driveways which were originally constructed and owned by a single company (generally either LG&E or KU) but are subsequently being used by more than one company. Rent is charged to the companies benefitting from the use of the building assets by the company owning the building.

Jointly used assets include the following locations:

- Broadway Office Complex
- One Quality Street
- Dix Transmission Control
- LG&E Building Leasehold Improvements
- Pineville Call Center
- Morganfield
- Riverport

In addition, the Simpsonville Data Center is a *jointly-owned* asset (by LG&E, KU and LKC) which is jointly-used by PPL EU Services Corporation. Rent is charged to PPL based on the

terms of a specific agreement between LG&E and KU Services Company (LKS) and PPL EU Services Corporation, known as the Hosting Services Agreement.

LKS Assets

Certain assets (PCs and LG&E Building leasehold improvements) reside on the books of LKS and are solely owned by LKS. These assets are used by the LKS employees to aid them in the performance of their services for its affiliates, including LG&E and KU. The depreciation on these assets is initially recorded on LKS and then allocated to LG&E, KU and LKC based on the ratios as defined in the CAM.

Certain other assets (IT assets, office furniture, etc.) reside on the books of LKS. These assets are jointly owned by LKS and other affiliates. The depreciation on these assets is initially recorded on LKS and then allocated to LKC.

COSTS OF JOINTLY OWNED COMBUSTION TURBINES

Simple Cycle Combustion Turbines

LG&E and KU jointly own ten simple cycle combustion turbines (CT) located at the Paddy's Run facility, Trimble County Generating Station, and E.W. Brown facility. All operations and maintenance expenses attributable to the Paddy's Run, Trimble County, and E.W. Brown CTs are accumulated and billed according to the percentage of ownership. The percentage of ownership and megawatt capacity is listed in the table below (capacity based on net summer capability).

Facility	MW Capacity	LG&E	KU
Paddy's Run 13	147	53%	47%
Trimble County 5	159	29%	71%
Trimble County 6	159	29%	71%
Trimble County 7	159	37%	63%
Trimble County 8	159	37%	63%
Trimble County 9	159	37%	63%
Trimble County 10	159	37%	63%
E.W. Brown 5	130	53%	47%
E.W. Brown 6	146	38%	62%
E.W. Brown 7	146	38%	62%

Automated allocations of costs using ownership percentages are processed in the Oracle General Ledger system and generate intercompany transactions between LG&E and KU. All transactions flow through the intercompany receivable account. The costs for the Paddy's Run and Trimble County CTs are accumulated in LG&E and transferred to KU per the ownership percentage. The costs for the E.W. Brown CTs are accumulated in KU and transferred to LG&E per the ownership percentage.

When costs are accumulated in LG&E and transferred to KU, an intercompany receivable is debited and the appropriate expense is credited. KU debits the appropriate expense account and credits an intercompany receivable. When costs are accumulated in KU and transferred to LG&E, an intercompany receivable is debited and the appropriate expense is credited. LG&E debits the appropriate expense account and credits an intercompany receivable. The amounts are then netted to establish an intercompany receivable for KU or LG&E and an intercompany payable for LG&E or KU.

Capital charges are paid by one of the utilities and allocated to the other based on percentage of ownership. Additionally, manual journal entries are prepared each month for the applicable portion of the gas used by the CTs. The journal entries split the gas cost between LG&E and KU based on the percentage of ownership.

Combined Cycle Gas Combustion Turbine

In 2015, LG&E and KU completed the construction of a natural gas combined cycle (NGCC) unit at the Cane Run site owned by LG&E. This unit has a 662 MW net summer capacity and is jointly owned by LG&E (22%) and KU (78%). Capital costs of Cane Run 7 are allocated according to the 22% LG&E and 78% KU ownership split.

Automated allocations of costs using the Cane Run 7 ownership percentages are processed in the Oracle General Ledger system and generate intercompany transactions between LG&E and KU. Operation and maintenance costs are accumulated at LG&E and transferred to KU, and an intercompany receivable is debited and the appropriate expense is credited. KU debits the appropriate expense account and credits an intercompany receivable. The amounts are then netted with other intercompany transactions between LG&E and KU to establish an intercompany receivable for KU or LG&E and an intercompany payable for LG&E or KU.

CASH COLLECTED AND PAID BY LG&E ON BEHALF OF KU

For the convenience of our suppliers and customers for purchased power and off system sales, and due to generating units being jointly dispatched, KU and LG&E have combined their billing and payments. This gives the appearance of one company to customers and suppliers.

Internally, sales and purchases are split between KU and LG&E and each company records its payable and receivable to the appropriate account. During 2018, this split was provided on a monthly spreadsheet from the Financial Accounting and Analysis department.

As LG&E makes payments to various vendors for purchased power, the disbursement request is split into the appropriate portions applicable to each company. LG&E issues the payment through its Accounts Payable Department and bills KU for the expenditures made on behalf of KU. The Oracle General Ledger system automatically creates the Intercompany payable and receivable as transactions are posted. The amount KU owes LG&E is included on the Intercompany billing from LG&E.

As LG&E receives payments for power sales, the money received is split into the appropriate amounts for each company and a monthly journal entry for the cash received on behalf of KU is recorded to create a payable to KU.

As payments are received by LG&E (KU) for off system sales, some of the same customers may have sold power to LG&E (KU). For the customers' convenience, when the contract allows, the payments are netted. Netted payments are booked by each utility as the gross amount of the receivable and payable.

In addition, certain other receivables and payables which benefit both LG&E and KU are processed through only one of the companies for convenience or efficiency. The cash received and disbursement requests are split into the appropriate portions applicable to each company.

Intercompany receivables and payables are billed on the normal billing to the respective company and settled on the 13th business day of the month following the transaction. See Tab 3 for a description of the intercompany monthly invoices.

Intercompany interest is calculated for these transactions that are paid/held and settled. Interest is calculated on a daily-accumulated balance of monies received and paid by LG&E on behalf of KU, and vice versa. Consistent with the 2011 Utility Money Pool Agreement, interest is calculated from the day the money is received or paid through the day of the Intercompany cash settlement. In July 2013, FERC approved an interest rate of the A2/P2 nonfinancial 30-day commercial paper

rate published by the Federal Reserve Board on the last business day of the prior month plus 5 basis points. A monthly journal entry is manually created to book the interest receivable/payable from this calculation.

LG&E and KU Services Company

Cost Allocation Manual

Effective February 2016

CAM	Cost Allocation Manual
CCS	Customer Care System
FERC	Federal Energy Regulatory Commission
HR	Human Resources
IT	Information Technology
KPSC	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LEM	LG&E Energy Marketing Inc.
LG&E	Louisville Gas and Electric Company
LKC	LG&E and KU Capital LLC
LKE	LG&E and KU Energy LLC
LKE Foundation	LG&E and KU Foundation
LKS	LG&E and KU Services Company
PPL	PPL Corporation
PPL Capital	PPL Capital Funding, Inc.
PPLEU	PPL Electric Utilities Corporation
PPLEU Services	PPL EU Services Corporation
PPL Services	PPL Services Corporation
PUHCA 2005	The Public Utility Holding Company Act of 2005
SEC	U.S. Securities and Exchange Commission
VSCC	Virginia State Corporation Commission

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I. INTRODUCTION

PUHCA 2005 states that centralized service companies must maintain and make available to the FERC their books, accounts and other records in the specific manner and preserve them for the required periods as the FERC prescribes in Title 18 Code of Federal Regulations Part 368 of the FERC Uniform System of Accounts. These records must be in sufficient detail to permit examination, audit, and verification, as necessary and appropriate for the protection of utility customers with respect to jurisdictional rates. The purpose of this CAM is to document the methods, policies and procedures that LKS will follow in performing certain services for affiliate companies and in receiving certain services or charges for affiliated companies from PPL Services, PPLEU Services and other PPL entities. In developing this CAM the overriding goal was to protect investors and consumers by ensuring the methods, policies and procedures contained in this CAM were PUHCA 2005 compliant so that LKS, PPL Services, and PPLEU Services costs are fully segregated, and fairly and equitably allocated among the affiliate companies. LKS was authorized to conduct business as a service company for LKE and its various subsidiaries and affiliates by order of the SEC on December 6, 2000, and commenced operations January 1, 2001. LKE is a Kentucky limited liability company and the parent of KU and LG&E. KU and LG&E are subject to the jurisdiction of and oversight by the KPSC. In addition, KU is subject to the jurisdiction of and oversight by the VSCC and the Tennessee Regulatory Authority. PPL Services and PPLEU Services are Delaware corporations authorized to conduct business as service companies for PPL and its various subsidiaries and affiliates, including LKE. Under Kentucky regulatory law, KU and LG&E are required to have a cost allocation manual on file with the KPSC. KU is required to have a services agreement for any affiliate transaction approved by the VSCC prior to the transaction.

Periodic changes to the CAM may be necessary due to future management decisions, changes in the law, interpretations by state or federal regulatory bodies, changes in structure or activities of affiliates, or other internal procedures.

II. CORPORATE ORGANIZATION

OVERVIEW

LKE is an indirect wholly-owned subsidiary of PPL, headquartered in Allentown, Pennsylvania. LKE has five direct subsidiaries: LG&E, KU, LKC, LEM and LKS. LKE has an affiliate relationship with LKE Foundation due to overseeing all operations of the foundation.

LKE and its utility subsidiaries are engaged principally in the generation, transmission, distribution and sale of electricity. LG&E is also engaged in the storage, distribution, and sale of natural gas. LKE and its subsidiaries are subject to the regulatory provisions of PUHCA 2005. LG&E and KU are subject to regulation by the FERC and the KPSC. KU is also subject to regulation by state utility commissions in Virginia and Tennessee.

PPL is a holding company with nine direct subsidiaries, including LKE, PPLEU, PPL Services, PPLEU Services, PPL Capital Funding, Inc., and PPL Energy Funding Corporation, the direct

parent of CEP Reserves Inc. PPL, PPLEU, PPL Services and PPLEU Services are subject to the provisions of PUHCA 2005.

LKE's UTILITY OPERATIONS

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E is a wholly-owned subsidiary of LKE. LG&E supplies electricity and natural gas to customers in Louisville and adjacent areas in Kentucky.

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU is a wholly-owned subsidiary of LKE.

LG&E and KU have mutual assistance agreements with PPLEU for system restoration in emergencies.

SERVICE COMPANIES

LKS, a Kentucky corporation, is a centralized service company registered under PUHCA 2005 and is authorized to conduct business as a service company for LKE and its various subsidiaries and affiliates by order of the SEC dated December 6, 2000, and commencing operation January 1, 2001. LKS is the service company for affiliated entities, including LKE, LG&E, KU, LKC and LEM and provides a variety of administrative, management, engineering, construction, environmental and support services. LKS provides its services at cost, as permitted under PUHCA 2005.

Development of the LKS organization was predicated on the fact that if the employee performed activities benefiting more than one affiliate, that employee would become a part of the LKS organization. In many respects, employees working in typical finance, administrative and general, management and other support departments are fully subject to LKS organizational placement.

Many operational employees dedicated to providing a service to just one affiliate, by definition, are not subject to LKS placement. However management and support staff overseeing the business activities of more than one of these operational groups are subject to LKS placement.

As a result of PPL's acquisition of LKE, PPL became a multi-state utility holding company subject to PUHCA 2005. PPL Services and PPLEU Services, Delaware corporations, are centralized services companies registered under PUHCA 2005 and authorized to conduct business as service companies for PPL and its various subsidiaries and affiliates. PPL Services and PPLEU Services are the service companies for affiliated PPL entities, including PPL Electric Utilities Corporation, and provide a variety of administrative, management, environmental, and support services. PPL Services and PPLEU Services provide their services at cost, as permitted under PUHCA 2005.

OTHER BUSINESS OPERATIONS

LKE Foundation, a charitable foundation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, makes charitable contributions to qualified entities.

LKC is a holding company for other LKE non-utility businesses which are generally inactive from an operational standpoint, but have certain remaining support or contingent business obligations.

LEM is an inactive non-utility company.

LKS transacts business for LKE Foundation, LKC, LEM and PPL and its affiliates on behalf of LKE.

LKE also receives services from CEP Reserves Inc. that benefit its non-utility activities.

III. TRANSACTIONS WITH AFFILIATES

OVERVIEW

LKE formed LKS, as a service company to provide services for affiliated companies. PPL formed PPL Services and PPLEU Services as service companies to provide services for affiliated companies. LKS, PPL Services, PPLEU Services, and affiliated companies (or their parent entities) may enter into service agreements, which may establish the general terms and conditions for providing those services, including those mentioned in Section IV of the CAM.

At formation, certain LG&E, KU and LKE employees became employees of LKS and such employees continued to provide services to the regulated and non-regulated entities. Similarly, at formation, certain PPL employees became employees of PPL Services and PPLEU Services and such employees continued to provide services to the regulated and non-regulated entities.

Regulated affiliates receive services at cost, pursuant to the service agreements. Non-regulated affiliates generally receive services at cost; however, certain services may permit pricing at fair-market value. The provisions included in contracts or service agreements govern transactions among LKS, PPL Services, PPLEU Services, and their regulated and non-regulated affiliates.

KU and LG&E are required by the KPSC and the VSCC to use the “stand alone” method for allocating their respective tax liabilities (or tax benefits) so that such tax liabilities (or tax benefits) will not exceed the tax liabilities (or tax benefits) each would incur if it filed its tax returns separately from the consolidated returns filed by PPL. KU and LG&E have filed a separate PPL Corporation and Subsidiaries tax allocation agreement with the KPSC and the VSCC. The allocation of the respective tax liabilities (or tax benefits) of KU and LG&E therefore are not within the scope of this CAM.

Definitions of Cost

Tariff Rate – The price charged to customers under applicable tariffs on file with federal or state regulatory commissions.

Fair Market Value – The price held out by a providing entity to the general public in the normal course of business (i.e. the price at which a reasonable buyer and a reasonable seller are willing to transact in the normal course of business).

Cost – The charge used for transactions with affiliates for which no tariff rate or fair market value is applicable. LKS follows the definition of cost defined in PUHCA 2005.

IV. DESCRIPTION OF SERVICES

The following table provides service descriptions along with the frequency of services provided and the primary affiliate receiving the services. See below for definitions of frequency and primary affiliates. The table also contains the cost assignment methods used to allocate indirectly attributable costs for these services, when necessary. Note that a departmental charge ratio may also be used for any service with indirectly attributable costs, but only if the use of the cost assignment method for the service would not result in the fair assignment of costs.

Detailed descriptions of cost assignment methods are provided in Section V. Also see section V for definitions of directly assignable, directly attributable and indirectly attributable. The cost assignment methods in the table below should be used only when costs of a good or service cannot be directly assignable or directly attributable.

Definitions of Frequency

Ongoing – Provided on a prearranged, continuous basis (i.e., daily)

Frequent – Provided as requested on a regular basis (i.e., several times per month)

Infrequent – Provided as requested on an irregular basis (i.e., several times per year)

Definitions of Primary Affiliates

All charges by LKS, PPL Services, and PPLEU Services to affiliated entities follow the principle of fully distributed cost. Primary affiliates receiving the service are designated below as:

R – Regulated (LG&E and KU)

NR – Non-regulated (LKE, LKC, LEM and LKE Foundation)

A – All

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Customer and Customer-Related Services				
Customer Service	Providing call center and customer communication services for both electric and gas customers.	Number of Customers Ratio	Ongoing	R
Sales and Marketing	Providing programs for establishing strategies, oversight for marketing, sales and branding of utility and related services, and conducting marketing and sales programs for economic development and demand side management.	Number of Customers Ratio	Frequent	R
Economic Development and Major Accounts	Maintaining community development, partnerships with state, regional, and local economic development allies, and customized products and services.	Number of Customers Ratio	Frequent	R
Meter Reading Services	Providing meter reading and meter data services, including maintaining inventory, quality and environmental issues, policy and standards, technical support, and logistics.	Number of Meters Ratio	Ongoing	R
Cash Remittance	Providing remittance processing, customer payments, and collection services.	Revenue Ratio	Ongoing	R
Billing Integrity	Administering and providing customer billings and credit reviews.	Number of Customers Ratio; Number of Meters Ratio	Ongoing	R

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Energy Efficiency	Providing energy efficiency programs to residential and commercial customers to encourage implementation of energy saving measures.	Number of Customers Ratio	Ongoing	R
Smart Grid Strategy	Providing leadership and direction for smart meter and smart grid strategy development, investment and decision analysis to support value-added infrastructure deployments.	Number of Customers Ratio	Ongoing	R
Field Services	Completing customer requested service orders generated through Residential Service Center, Business Service Center, KU Business Offices, Billing Integrity and Meter Assets. Supporting Meter Shop activities and Public Safety Response Team needs.	Number of Meters Ratio	Ongoing	R
CCS Retail Business Readiness	Providing end user support services, development and capture of business metrics and development, and delivery of training for the Company's CCS.	Number of Customers Ratio	Ongoing	R
Power Production and Generation Services				
Project Engineering	Coordinating and managing all major generation construction.	Generation Ratio	Infrequent	R
System Laboratory	Providing system laboratory services to the generating stations.	Total Utility Plant Assets Ratio	Ongoing	R

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Generation	Providing centralized, fleet-wide technical expertise for generation asset management, technical guidance for various functional initiatives and coordination of operational research and development.	Total Utility Plant Assets Ratio	Ongoing	R
Generation Services and Safety	Providing management services and oversight to Energy Services, including Power Generation, Safety, and Technical Training.	Total Utility Plant Assets Ratio; Total Utility Electric Plant Assets Ratio	Ongoing	R
Fuel Procurement	Procuring coal, natural gas, oil and other bulk materials for generation facilities and ensuring compliance with price and quality provisions of fuel contracts.	Contract Ratio; Generation Ratio	Ongoing	R
Project Development	Providing project development services to identify and develop potential future sources of energy and capacity to meet the Company's power supply needs.	Total Utility Plant Assets Ratio	Ongoing	R
Transmission Operations & Services				
Strategy, Reliability and Tariffs	Providing transmission system reliability planning and identifying current and future upgrades that are needed to maintain reliability. Providing facility ratings, drawings and reliability metrics. Coordinating and managing transmission tariffs and agreements with outside parties for use of the transmission system.	Transmission Ratio	Ongoing	R
Operations and Construction	Coordinating and managing all maintenance and capital upgrades to transmission substations. Coordinating and managing all maintenance and capital upgrades to the transmission lines. Providing transmission system control center services. Managing	Transmission Ratio; Total Assets Ratio; Total Utility Plant Assets Ratio	Ongoing	R

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
	and maintaining the Energy Management System. Coordinating and managing the balance between scheduled transmission usage and actual transmission usage by other companies.			
Reliability and Compliance	Ensuring that the Transmission Department is complying with all applicable regulatory standards.	Transmission Ratio	Ongoing	R
Energy Supply and Analysis Services				
Energy Marketing	Providing market services to take advantage of the highest excess generation prices in the open market.	Generation Ratio	Ongoing	R
Market Forecasting	Providing management services for financial forecasts of the utility market.	Generation Ratio	Frequent	R
Load Forecasting	Providing short- and long-term load forecasting services.	Generation Ratio	Frequent	R
Generation Planning and Analysis	Providing short- and long-term generation planning services	Generation Ratio	Ongoing	R

Distribution Operations Services

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Network Trouble and Dispatch	Providing dispatch services, reporting outage situations and coordinating restoration.	Number of Customers Ratio	Ongoing	R
Electric Engineering	Providing development engineering and construction standards, distribution system planning and analysis, substation construction project management and telecommunications systems design and analyses.	Total Assets Ratio	Ongoing	R
Distribution Asset Management	Leading management and investment decisions regarding distribution assets, including resource allocation, developing uniform standards and procedures, determining performance targets and managing assets information and data.	Number of Customers Ratio; Total Assets Ratio	Ongoing	R
Forestry	Providing vegetation and tree management.	Total Assets Ratio	Frequent	R
Substation Construction and Maintenance	Providing engineering and design services for substation construction, maintenance and operations areas.	Total Utility Plant Assets Ratio	Frequent	R
Financial Planning and Budgeting Services				
Budgeting	Providing services related to managing, coordinating and reporting for the budgeting and forecasting process.	Revenue, Total Assets and Number of Employees Ratio; Transmission Ratio; Generation Ratio; Number of Customers Ratio	Frequent	A

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Financial Planning	Providing financial planning and forecasting, investment analysis and investment planning reporting.	Revenue, Total Assets and Number of Employees Ratio	Frequent	A
Controller Organization Services				
Accounting and Reporting	Providing accounting and reporting in conformity with U.S. Generally Accepted Accounting Principles (GAAP) and the FERC Uniform System of Accounts (USofA), accounting research and interpretation and promulgation of accounting and internal control procedures, performing U.S. GAAP general ledger account and project analyses, reconciliations and consolidation, internal and external financial reports, and business and financial system support and consultation.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Property Accounting	Maintaining, analyzing and reporting related to property records.	Total Utility Plant Assets Ratio	Ongoing	A
Revenue Accounting	Managing and analyzing internal and external revenue reporting.	Revenue Ratio	Ongoing	R
Corporate Tax and Payroll Organization Services				
Payroll	Providing payroll services including the managing of payroll systems.	Number of Employees Ratio	Ongoing	A

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Tax Accounting, Compliance and Reporting	Preparing consolidated and subsidiary federal, state and local income tax returns; current and deferred tax accounting; utility gross receipts tax; sales/use tax; property tax; LKE Foundation returns; and supporting roles for project development and tax legislation.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Audit Services				
Audit Services	Providing independent and objective assurance along with consulting services and internal controls system review.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Sarbanes-Oxley Compliance Services				
Sarbanes-Oxley Compliance	Providing coordination, implementation and maintenance of the Company's program for compliance with the Sarbanes-Oxley Act of 2002.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Treasury Services				
Treasury and Corporate Finance	Providing management and monitoring of cash flows including review and acquisition of business entity cash requirements and procurement of short-term financing and credit lines. Providing overall finance options including evaluating new financing vehicles and instruments, analyzing existing financing positions and raising long-term funds for all entities.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Risk Management	Managing outside providers of risk services comprised of providing insurance and assisting affiliated entities in managing property and liability risks including claims, security, environmental, safety and consulting services.	Total Utility Plant Assets Ratio	Ongoing	A
Credit Administration	Providing management of credit risk for wholesale energy sales and major vendors.	Generation Ratio	Ongoing	A
Energy Marketing Trading Controls	Performing reporting on the trading portfolios. Performing validation of significant transactions, valuation algorithms, ensuring trading system security and testing trading system enhancements.	Generation Ratio	Ongoing	A
Supply Chain and Logistics Services				
Supply Chain	Maintaining and analyzing the supplier base and performing supplier selection activities including contract negotiations and ongoing compliance. Providing order management, materials handling and logistics and inventory management services. Providing order management and general field support services for system maintenance, developing and monitoring of key performance metrics, supplying day to day variance and reconciliation reporting services and performing supplier certification services. Identifying qualified minority and women owned businesses that are able to participate in competitive bidding opportunities, perform on-going work and ultimately become key	Non-Fuel Material and Services Expenditures Ratio; Network Users Ratio; Ultimate Users Ratio	Ongoing	A

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
	suppliers to LKE and subsidiaries.			
Accounts Payable	Processing payments for purchase orders, check requests, employees' expense reimbursements, etc., and providing ad-hoc research and analysis.	Number of Transactions Ratio; Non-Fuel Material and Services Expenditures Ratio	Ongoing	A
IT Services				
IT Security	Providing services associated with non-project management, security and administrative support. This function includes developing and administering security policies and procedures. Providing services associated with compliance activities and security related administration support. This function includes development, implementation and on-going compliance activities for the NERC Critical Infrastructure Protection (CIP) Program.	Corporate Information Security Ratio; Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio	Ongoing	A
IT Applications Development and Support	Providing services associated with each of the existing applications that IT provides to the business. These services include costs incurred related to application license fees and application support costs. Providing services associated with existing end user tools and related productivity software; Providing end user support services, and development.	Network Users Ratio; Number of Employees Ratio; Number of Customers Ratio; Ultimate Users Ratio	Ongoing	A
IT Infrastructure and Operations	Providing services related to the corporate-wide shared computing infrastructure, including servers, storage and data center operations. Providing services related to all corporate-wide network capabilities including	Network Users Ratio; Number of Employees Ratio;	Ongoing	A

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
	wide area transport networks, local area networks, wireless networks, telephone systems, telecommunications for SCADA and two-way radio systems. Providing services related to a number of enterprise applications including e-mail, SharePoint, instant messaging and others. This function includes the operations of the NERC Critical Infrastructure Protection (CIP) Program.	Ultimate Users Ratio		
IT Governance	Providing services including business relationship management, project management, requirements, and planning.	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio	Ongoing	A
IT Business Services	Providing services including business analysis, testing, service management and process management	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio	Ongoing	A
IT Major Projects	Providing services including software system implementations projects and software system upgrade projects.	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio	Ongoing	A

Compliance, Legal, and Environmental Affairs Services

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Legal	Providing various legal services for all affiliated entities including in-house counsel and staff assistance in the areas of, among others, corporate and securities law, employment law, energy, public utility and regulatory law, contract law, litigation, environmental law and intellectual property law, evaluating legal claims and managing legal fees for outside counsel.	Revenue, Total Assets and Number of Employees Ratio	Ongoing	A
Compliance	Providing various compliance services for all affiliated entities including compliance assessment and risk management, code of conduct, anti-fraud, ethics, helpline management and Critical Infrastructure Protection (CIP) Compliance.	Number of Employees Ratio; Total Utility Plant Assets Ratio	Ongoing	A
Environmental Affairs	Providing management services related to performing analyses, monitoring and advocacy of regulatory and legislative environmental matters including securing of permits and approvals, providing environmental technical expertise, environmental compliance and representing the Company in industry groups and before regulatory agencies dealing with environmental issues.	Electric Peak Load Ratio	Frequent	R
Regulatory Affairs and Government Affairs Management Services				
Regulatory Affairs	Providing management services for compliance with all laws, regulations and other policy requirements, including regulatory filings, expert testimony, tariff administration and compliance, pricing support, and development and monitoring of positions regarding ongoing regulatory matters.	Revenue Ratio	Ongoing	R

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Government Affairs Management	Maintaining relationships with government policy makers and conducting lobbying activities.	Revenue Ratio	Frequent	A
Corporate Communications and Public Affairs Management Services				
Internal Communications	Providing employee and customer-directed communications including company intranet/internet, employee newsletters, announcements, speeches, graphic design, presentations and customer newsletters and bill inserts.	Number of Employees Ratio	Frequent	A
External and Brand Communications	Providing all administrative and management support for external communication services, brand image management and corporate events.	Number of Customers Ratio; Revenue, Total Assets and Number of Employees Ratio	Frequent	A
Public Affairs Management	Providing community relations functions, communicating public information to local organizations and providing oversight for communications to employees.	Revenue, Total Assets and Number of Employees Ratio	Frequent	A
Operating Services				
Facilities and Buildings	Providing building and grounds maintenance including coordination of office furniture and equipment purchases/leases, space utilization and layout, and building code and fire protection services.	Number of Customers Ratio; Number of Employees Ratio; Facilities Ratio	Ongoing	A

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
Security	Providing security personnel, security and monitoring devices for all affiliated entities.	Number of Employees Ratio	Ongoing	A
Production Mail	Providing production mail services for customer bills and other large customer mailings.	Number of Customers Ratio	Ongoing	R
Document	Providing document printing, reproduction services including mail delivery, scanning, off-site storage and document service desk support.	Number of Employees Ratio	Ongoing	A
Process Management and Performance	Provide business process improvements, operational performance measures, benchmarking studies, and rate case analysis for all of Customer Service.	Number of Customers Ratio	Ongoing	R
Right-of-Way	Obtaining and retaining easements or fee simple property for placement and operation of company and affiliate equipment as well as managing real estate assets and maintaining real estate records.	Number of Customers Ratio	Ongoing	R
Transportation Services				
Transportation	Providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles	Number of Employees Ratio; Vehicle Cost Allocation Ratio	Ongoing	A
HR Services				
HR Compensation	Providing services relating to the establishment and oversight of compensation policies for employees.	Number of Employees Ratio	Frequent	A

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
HR Benefits	Providing services relating to the establishment and oversight of benefits plans for employees, retirees and survivors. This also includes vendor management, compliance with various laws and regulations, administrative vendor billings and maintenance of all personnel records.	Number of Employees Ratio	Frequent	A
Other HR Services	Providing initiatives and programs designed to support the company's diversity strategy, with an emphasis on creating, designing and implementing the strategies and programs to achieve the company's diversity vision. This includes fostering and managing the internal and external relationships necessary to driving initiatives within the company and wider community customer base. Providing initiatives and programs designed to support personal and professional growth, with an emphasis on employee and leadership training, individual and career development, performance management, coaching, mentoring, succession planning and employee engagement. Providing communication and oversight for union matters, negotiation of union contracts and union dispute resolution services.	Number of Employees Ratio	Frequent	A
Health and Safety	Providing services relating to the establishment and oversight of health and safety policies for employees. Providing training services on technical and safety matters primarily for the Energy Delivery and Energy	Number of Employees Ratio	Frequent	A

<u>Service</u>	<u>Description</u>	<u>Assignment Method</u>	<u>Frequency</u>	<u>Primary Affiliate</u>
	Services businesses.			
Executive Management Services				
Executive Management	Providing executive leadership to the corporation, the cost of which is comprised of the compensation and benefits of the corporate officers and executive assistants.	Generation Ratio; Number of Customers Ratio; Network Users Ratio; Number of Employees Ratio; Revenue Ratio; Revenue, Total Assets and Number of Employees Ratio; Total Assets Ratio; Total Utility Plant Assets Ratio; Transmission Ratio	Ongoing	A

V. COST ASSIGNMENT METHODS

OVERVIEW

The costs of services provided by LKS, PPL Services, and PPLEU Services will be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. The primary basis for charges to affiliates is the direct charge method (see section VI for time reporting procedures). The methodologies listed below pertain to all other costs which are not directly assigned but which make up the fully distributed cost of providing the service.

Directly Assignable – Expenses incurred for activities and services exclusively for the benefit of one affiliate. In many respects, these types of expenses relate to non-LKS employees that perform dedicated services to one affiliate, although LKS, PPL Services and PPLEU Services employees also directly report where feasible.

Directly Attributable – Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using direct measures of costs causation.

Indirectly Attributable – Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using general measures of cost causation.

Unattributable – Expenses or portions thereof incurred for activities and services that have been determined as not appropriate for apportionment. The unattributable portions of these costs relate primarily to activities such as corporate diversification, political or philanthropic endeavors and, as such, may be charged, in whole or in part, to LKC.

ASSIGNMENT METHODS

LKS, PPL Services, and PPLEU Services will allocate the costs of service among the affiliated companies using one of several methods that most accurately distributes the costs. The method of cost allocation varies based on the department rendering the service. Any of the methods may be adjusted for any known and reasonably quantifiable events, or at such time as may be required due to significant changes in the business, but are generally determined annually. The assignment methods used by LKS, PPL Services, and PPLEU Services are as follows:

Contract Ratio – Based on the sum of the physical amount (i.e. tons of coal, mmbtu of natural gas) of the contract for coal and natural gas fuel burned for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Corporate Information Security Ratio – This ratio allocates the cost of cyber security activities using an allocation consistent with the methodology used by third party insurers providing cyber security insurance to the organization. The methodology assigns a percentage of

the premium based on the various risks (e.g., number of employees, the number of customers, etc.). The total of the percentages equals 100%. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Departmental Charge Ratio – A specific department ratio based upon various factors. The departmental charge ratio typically applies to indirectly attributable costs such as departmental administrative, support, and/or material and supply costs that benefit more than one affiliate and that require allocation using general measures of cost causation. Methods for assignment are department-specific depending on the type of service being performed and are documented and monitored by the Budget Coordinators for each department. The numerator and denominator vary by department. The ratio is based upon various factors such as labor hours, labor dollars, departmental or entity headcount, capital expenditures, operations and maintenance costs, retail energy sales, charitable contributions, generating plant sites, average allocation of direct reports, net book value of utility plant, total line of business assets, electric capital expenditures, substation assets and transformer assets. The Departmental Charge Ratio will only be used with prior approval by the Controller when other applicable ratios would not result in the fair assignment of costs. These ratios are calculated on an annual basis. Any changes in these ratios will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in any of these ratios from that used in the prior year.

Electric Peak Load Ratio – Based on the sum of the monthly electric maximum system demands for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Facilities Ratio – Based on a two-tiered approach with one tier based on the number of employees by department or line of business and the other tier based on the applicable department or line of business ratio. The numerator for the number of employees is the number of employees by department or line of business at the facility and the denominator is the total employees at the facility. The numerator and denominator for the applicable department or line of business for the service provided as described in this document. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Generation Ratio – Based on the annual forecast of megawatt hours, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Network Users Ratio – Based on the number of IT network users at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate costs to the

proper legal entity. The numerator for the first step of this ratio is the total number of network users for each specific company, and the denominator is the total number of network users for all companies in which an allocator is assigned (i.e. LG&E, KU, LKS and PPL). For the second step, the ratio of LKS network users, to total network users will then be allocated to the other companies (LG&E, KU, and LKC) based on each company's ratio of LKS labor hours to total LKS labor hours. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Non-Fuel Material and Services Expenditures – Based on non-fuel material and services expenditures, net of reimbursements, for the immediately preceding twelve consecutive calendar months. The numerator is equal to such expenditures for a specific entity and/or line-of-business as appropriate and the denominator is equal to such expenditures for all applicable entities. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Customers Ratio – Based on the number of retail electric and/or gas customers. This ratio will be determined based on the actual number of customers at the end of the previous calendar year. In some cases, the ratio may be calculated based on the type of customer class being served (i.e. Residential, Commercial or Industrial). The numerator is the total number of each Company's retail customers. The denominator is the total number of retail customers for both LG&E and KU. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Employees Ratio – Based on the number of employees benefiting from the performance of a service. This ratio will be determined based on actual counts of applicable employees at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate LKS employee costs to the proper legal entity. The numerator for the first step of this ratio is the total number of employees for each specific company, and the denominator is the total number of employees for all companies in which an allocator is assigned (i.e. LG&E, KU and LKS). For the second step, the ratio of LKS to total employees will then be allocated to the other companies (LG&E, KU and LKC) based on each company's ratio of labor hours to total labor hours. LKC has no employees, but non-utility related labor is charged to it. In some cases, the ratio may be calculated based on the number of employees at a specific location for the first step with the ratio of LKS to total employees being allocated based on labor hours of the employees at the specific location. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Meters Ratio – Based on the number or types of meters being utilized by customer classes within the system for the immediately preceding twelve consecutive calendar months. The numerator is equal to the number of meters for each utility and the denominator is equal to the total meters for KU and LG&E. This ratio is calculated on an annual basis. Any changes in

the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Transactions Ratio – Based on the number of transactions occurring in the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. The Controller's organization is responsible for maintaining and monitoring specific product/service methodology documentation for actual transactions related to LKS billings. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Ownership Percentages – Based on the contractual ownership percentages of jointly-owned generating units, information technology, facilities and other capital projects. This ratio is updated as a result of a new jointly-owned capital projects and is based on the benefit to the respective company. The numerator is the specific company's forecasted usage. The denominator is the total forecasted usage of all respective companies.

Revenue Ratio – Based on the sum of the revenue for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Revenue, Total Assets and Number of Employees Ratio – Based on an average of the revenue, total assets and number of employees ratios. The numerator is the sum of Revenue Ratio, Total Assets Ratio and Number of Employees Ratio for the specific company. The denominator is three – the number of ratios being averaged. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Total Assets Ratio – Based on the total assets at year end for the preceding year. In the event of joint ownership of a specific asset, asset ownership percentages are utilized to assign costs. The numerator is the total assets for each specific company at the end of the preceding year. The denominator is the sum of total assets for each company in which an allocator is assigned (LG&E, KU and LKC). This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Total Utility Plant Assets Ratio – Based on the total utility plant assets at year end for the preceding year, the numerator of which is for an operating company and the denominator of which is for all operating companies. In the event of joint ownership of a specific asset, ownership percentages are utilized to assign costs. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year,

and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Transmission Ratio –The Transmission Coordination Agreement (TCA) provides “the contractual basis for the coordinated planning, operation, and maintenance of the combined” LG&E and KU transmission system. Pursuant to the terms of the TCA, LG&E/KU “operate their transmission systems as a single control area.” The TCA establishes cost and revenue allocations between LG&E and KU. The Transmission Ratio is based upon Schedule A (Allocation of Operating Expenses of the Transmission System Operator) of the TCA. Transmission System Operator Company allocation percentages are calculated during June of each year to be effective July 1st of each year using the previous year's summation of the Transmission Peak Demands as found in FERC Form 1 for Kentucky Utilities Company (KU) and Louisville Gas & Electric Company (LG&E) page 400 line 17(b).

Ultimate Users Ratio – Based on the number of ultimate users of an IT product or service (i.e., software, hardware, mobile devices, etc.) at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate costs to the proper legal entity. The numerator for the first step of this ratio is the total number of ultimate users for each specific company, and the denominator is the total number of ultimate users for all companies in which an allocator is assigned (i.e. LG&E, KU, LKS and PPL). For the second step, the ratio of LKS ultimate users, to total ultimate users will then be allocated to the other companies (LG&E, KU, and LKC) based on each company's ratio of LKS labor hours to total LKS labor hours. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Vehicle Cost Allocation Ratio – Based on the costs associated with providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles. Such rates are applied based on the specific equipment employment and the measured usage of services by the various company entities. This ratio is calculated monthly based on the actual transportation charges from the previous month. The numerator is the department labor charged to a specific company. The denominator is the total labor costs for the specific department. The ratio is then multiplied by the total transportation costs to determine the amount charged to each company.

VI. TIME DISTRIBUTION, BILLING AND ASSET TRANSFER POLICIES

OVERVIEW

LKS utilizes Oracle or other financial systems in which project/task combinations are set up to equate to services. In some cases, departments have set up many projects/tasks that map to services. In many cases, there is a one to one relationship between the project/task and the service. The Oracle system also automatically captures the home company (providing the service) and the charge company (receiving the service). Regardless of the method of reporting, charges related to specific services reside on the company receiving the service and therefore can be identified for billing purposes as well as for preparation of LKS financial statements. This ensures that:

1. Separation of costs among LG&E, KU, LKE's non-regulated subsidiaries and other PPL affiliates will be maintained
2. Intercompany transactions and related billings are structured so that non-regulated activities are not subsidized by regulated affiliates and regulated affiliates do not subsidize other regulated affiliates
3. Adequate audit trails exist on the books and records

BILLING POLICIES

Billings for transactions among LKS, PPL Services, PPLEU Services, and other affiliates are issued on a timely basis with documentation sufficient to provide the receiving party with enough detail to understand the nature of the billing, the relevant components, and other information as required by affiliates. Financial settlements for transactions are made within 30 days. Interest charges, which are based on market rates for similar maturities of similarly rated entities as of the date of the loan, may apply. LKS is authorized to act as payment and billing agent on behalf of LKE, LG&E, KU and LKC.

ASSET TRANSFERS

Unless otherwise permitted by regulatory authority or exception, (i) transfers or sales of assets from regulated affiliates to non-regulated affiliates will be priced at the greater of cost or fair market value; (ii) transfers or sales of assets from non-regulated affiliates to regulated affiliates will be priced at the lower of cost or fair market value and (iii) transfers of assets between regulated affiliates shall be priced at no more than cost less depreciation. Settlement of liabilities will be treated in the same manner.

TIME DISTRIBUTION

LKS has three methods of distribution to record employee salaries and wages while providing services for the affiliated entities: Positive time reporting, allocation time reporting and exception time reporting. Each department's job activities will dictate the time reporting method used.

Positive Time Reporting

Positive time reporting or direct time reporting requires all employees in a department to track all chargeable hours every day. Time may be charged to the nearest quarter hour.

Departments that have positive time reporting have labor-based activities that are easily trackable given the project/task code combinations noted above. All employees are given appropriate project numbers that are associated with the service that is being provided. The proper coding for direct assignment of costs is on various source documents, including the timekeeping system and disbursement requests. Each department or project manager is responsible for ensuring employees charge the appropriate charge codes for the services performed. This form of time reporting is documented in the timekeeping system, which upon completion, is approved by the employees' immediate supervisor.

Allocation Time Reporting

Allocation time reporting allows for certain departments to set up a predefined allocation percentage to affiliated company project/tasks. This is typically the case when the department is transaction-based, therefore, performing routine, similar tasks benefiting multiple affiliates. Each department will use its ratio (see ratio assignment listing in section V) that was assigned by its Budget Coordinator to allocate the appropriate time to individual charge numbers that are associated to that department's services. Unless otherwise permitted by regulatory authority or exception, the selection of ratios and the calculation of allocation percentages should be derived from or bear relationship to an empirical analysis of a prior representative period. These allocation percentages are reviewed on an annual basis to update to actual allocation percentages when needed.

Exception Time Reporting

If an employee was working on a completely new project that had not been defined within the monthly or annual allocation process, then the employee would be given the new allocation with project/task code, update his/her time allocation accordingly and get his/her manager's approval. If an allocation from a previous pay period needs to be adjusted then that correction must be entered into the timekeeping system.



Joel H. Peck, Clerk
Virginia State Corporation Commission
Document Control Center
1300 East Main Street
Tyler Building - First Floor
Richmond, Virginia 23219

**Old Dominion Power
Company**
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.lge-ku.com

Rick E. Lovekamp
Manager - Regulatory
Strategy/Policy
T 502-627-3780
rick.lovekamp@lge-ku.com

April 30, 2019

**RE: Kentucky Utilities Company d/b/a Old Dominion Power Company
for Authority to Engage in Affiliate Transactions Pursuant to Va.
Code § 56-76 et seq. (Case No. PUR-2018-00049)**

Dear Mr. Peck:

Pursuant to the Commission's Order, dated June 29, 2018, Kentucky Utilities Company ("KU"), d/b/a Old Dominion Power Company, ("ODP"), (collectively "the Companies"), hereby enclose an original and two (2) copies of the following information set forth in Paragraph Nos. 11 and 12 in the Appendix of this Order:

1. KU's, *Annual Report of Affiliate Transactions* for the calendar year January 1, 2018 through December 31, 2018
2. Federal Energy Regulatory Commission Form 60 Report

Also, enclosed is the list of the PPL affiliates who participated together with KU in the Tax Allocation Agreement for 2017 and the Annual Detailed Reconciliations for the 2017 tax year as set forth in Paragraph 12 in the Appendix of this Order. The Companies consider, both, the members of the Tax Allocation Agreement and the Annual Detailed Reconciliations to be confidential information and request this information be withheld from public disclosure and be afforded the same protections as confidential information in formal proceedings. The information for which KU is seeking confidential treatment is not known outside of the Company, and it is not disseminated within KU except to those employees with a legitimate business need to know the information.

Mr. Joel H. Peck
April 30, 2019

The Companies are simultaneously submitting a copy of this *Annual Report of Affiliate Transactions* to the Commission's Director of Utility Accounting and Finance.

Please confirm your receipt of this filing by placing the File Stamp of your office on the enclosed extra copy and returning it to KU in the enclosed, self-addressed envelope. If you have any questions, please contact me or contact Don Harris at (502) 627-2021.

Sincerely,



Rick E. Lovekamp

cc: Kimberly B. Pate, Director, Division of Utility Accounting and Finance
Robert F. Sartelle, Manager, Division of Utility Accounting and Finance

2018 VA ARAT
 KU Provider of Service (Receivables)
 VSCC-1 By Month and CAM Category

CAM Category	Jan-2018	Feb-2018	Mar-2018	Apr-2018	May-2018	Jun-2018	Jul-2018	Aug-2018	Sep-2018	Oct-2018	Nov-2018	Dec-2018	Total
Compliance, Legal, and Environmental Affairs Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,978.46	\$ -	\$ -	\$ -	\$ -	\$ 1,978.46
Controller Organization Services	-	-	-	-	-	-	-	-	-	(0.01)	-	-	(0.01)
Corporate Communications and Public Affairs Management Services	-	-	-	-	520.01	-	-	-	-	-	-	-	520.01
Corporate Tax and Payroll Organization Services	3,718.20	2,662.65	3,584.41	3,392.37	2,641.06	3,721.55	5,665.21	2,555.13	2,557.82	2,485.47	10,703.89	2,505.92	46,193.68
Customer and Customer-Related Services	3,983.48	7,867.79	10,274.52	8,310.65	12,328.09	7,229.20	4,131.30	2,121.57	1,395.89	3,022.12	1,274.02	5,900.33	67,618.96
Distribution Operations Services	3,013.39	(2,369.06)	15,328.06	3,052.13	9,696.03	78,609.89	48,276.52	15,280.40	3,983.65	19,680.33	324,011.07	2,024.97	520,607.38
Energy Supply and Analysis Services	0.00	-	0.00	(0.00)	-	(0.00)	-	0.00	0.00	2.78	(0.00)	-	2.78
Executive Management Services	(188.48)	-	1,877.96	-	100.70	-	-	-	-	-	-	-	1,790.18
Financial Planning and Budgeting Services	-	-	-	-	-	-	-	-	(188.96)	-	-	-	(188.96)
HR Services	11,778.04	8,034.56	997,555.67	(981,047.68)	6,689.58	125,391.68	(113,236.47)	5,834.52	80,808.77	(72,139.55)	6,272.21	(11,342.95)	64,598.38
IT Services	142,153.93	110,470.05	114,855.04	122,825.30	126,837.38	135,863.44	116,280.87	122,178.30	111,374.31	132,555.78	118,944.44	150,051.36	1,504,190.18
Operating Services	45,609.40	45,480.04	48,362.19	47,435.16	48,070.83	11,968.00	12,781.57	14,867.21	12,051.81	18,208.70	12,890.69	83,588.03	401,313.73
Power Production and Generation Services	954,178.17	290,800.28	347,621.84	416,038.12	489,291.66	416,427.59	291,114.30	648,163.92	255,406.17	375,381.53	520,122.28	583,337.74	5,587,883.60
Regulatory Affairs and Government Affairs Management Services	-	-	-	-	-	-	-	-	(11.39)	-	-	-	(11.39)
Supply Chain and Logistics Services	-	-	-	-	-	-	-	-	-	211.21	938.31	-	1,149.52
Transmission Operations & Services	209,042.84	27,118.96	100,834.04	15,999.24	137,361.08	251,909.82	34,028.71	21,107.08	52,447.29	97,631.34	159,393.30	324,953.31	1,431,827.01
Transportation Services	1,135.86	-	-	-	-	-	-	-	-	-	-	-	1,135.86
Treasury Services	365.57	311.47	356.31	331.59	307.05	247.90	313.22	269.82	153.04	390.82	430.92	394.59	3,872.30
Total	\$ 1,374,770.40	\$ 490,176.74	\$ 1,640,450.04	\$ (363,663.12)	\$ 833,843.47	\$ 1,031,368.07	\$ 399,355.23	\$ 834,366.41	\$ 519,980.50	\$ 577,440.50	\$ 1,154,981.13	\$ 1,141,413.30	\$ 9,634,483.67

Refer to the LG&E and KU Services Cost Allocation Manual filed with the 2016 Virginia Annual Report of Affiliate Transactions for a description of services, the nature and frequency of services provided, cost apportionment methodology, and methods.

Exhibit No. VSCC-1A	\$ 8,447,404.24
Exhibit No. VSCC-1B	841,733.80
Exhibit No. VSCC-1C	171,342.33
Exhibit No. VSCC-1D	62,817.94
Exhibit No. VSCC-1E	111,185.36
Total	\$ 9,634,483.67

Convenience Payments:

Cash received by LG&E on behalf of KU	\$ 45,997,863.37
IMEA/MPA Incremental capital billings by LG&E	20,438,889.70
Materials/Fuels	17,904,737.86
Power Sales/Purchases	17,000,684.62
Capital Expenditures	4,778,501.38
Outside Services	1,804,463.60
Equipment/Facilities	1,225,895.31
Other	375,202.09
Total	\$ 109,524,037.91

Other Excluded Non-Service Transactions

Tax Settlements	\$ 7,940,929.00
Other Net Accruals and Misc	1,719,543.57
Total	\$ 9,660,472.57

Grand Total **\$ 128,818,994.15**

**KENTUCKY UTILITIES COMPANY
ANNUAL REPORT OF AFFILIATE TRANSACTIONS WITH
LOUISVILLE GAS AND ELECTRIC COMPANY
January 1, 2018 - December 31, 2018**

No. 10

Kentucky Utilities Company, d/b/a Old Dominion Power Company, shall file an Annual Report of Affiliate Transactions undertaken with Louisville Gas and Electric Company and LG&E and KU Services Company with the Director of the Division of Utility Accounting and Finance (formerly "Public Utility Accounting") of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999. Such report should include the following information:

- 1) identification of the affiliates involved in each transaction;
- 2) description of each affiliate arrangement/agreement and case number in which the transactions were approved;
- 3) dates of each affiliate arrangement/agreement;
- 4) description of transactions by component cost by month and in total;
- 5) description of services provided;
- 6) profit component of each arrangement/agreement where services are provided to an affiliate and how such component is determined;
- 7) comparable market values and documentation related to each arrangement/agreement;
- 8) percent/dollar amount of each affiliate arrangement/agreement charged to expense and/or capital accounts;
- 9) allocation bases/factors for allocated costs; please see also the Company's Cost Allocation Manual for a description of allocation methods used;
- 10) list and description of each utility asset transfer over \$250,000;
- 11) list by functional group of utility assets transfers valued less than \$250,000;
- 12) dollar amount either paid to, or received by, KU/ODP for each transaction per month.

RESPONSES:

- 1) Louisville Gas and Electric Company
- 2) Amended and Restated Utility Services Agreement, Case Number: PUE-2015-00126
- 3) February 24, 2016
- 4) Component costs are:

Period	Capital Expenditures	Direct-Indirect Labor	Equipment/Facilities	Benefits/Overheads ¹	Materials/Fuels	Office and Administrative Services	Outside Services	Transmission	Total
Jan-2018	\$ 466,898.32	\$ 71,830.33	\$ 114,176.34	\$ 52,215.66	\$ 240.35	\$ 1,433.27	\$ 4,424.63	\$ 551,621.84	\$ 1,252,840.84
Feb-2018	163,338.02	37,229.17	106,456.18	37,751.64	755.38	2,966.29	1,966.42	31,101.13	381,564.23
Mar-2018	270,272.26	65,060.71	114,958.32	46,666.55	2,033.60	4,189.08	1,195.51	39,055.84	543,431.87
Apr-2018	177,297.68	54,002.78	113,111.52	46,180.57	3,024.60	3,956.53	2,748.69	108,679.19	509,001.02
May-2018	435,268.87	60,069.74	111,445.40	39,799.71	210.88	1,342.40	7,164.15	62,777.22	708,078.37
Jun-2018	666,796.38	(35,997.01)	124,806.05	19,296.01	186.53	2,961.27	4,452.96	32,017.99	814,520.18
Jul-2018	151,533.29	68,066.00	116,775.60	39,401.42	892.78	3,349.11	11,862.35	42,776.08	434,656.63
Aug-2018	515,339.18	48,309.49	111,935.06	30,332.37	491.89	7,260.49	1,543.01	40,435.26	755,646.85
Sep-2018	63,701.70	51,648.36	111,291.34	25,448.61	2,641.05	1,651.71	9,958.45	99,707.07	368,049.29
Oct-2018	263,579.51	49,858.65	113,130.13	28,730.11	21,129.61	1,691.32	1,916.14	89,665.01	569,700.48
Nov-2018	660,134.79	132,435.49	142,111.56	44,057.65	1,344.67	9,175.71	2,935.69	78,289.59	1,070,485.05
Dec-2018	631,605.87	47,230.61	184,558.13	16,628.76	1,800.29	3,179.54	32,835.21	123,691.02	1,041,429.43
Total	\$ 4,455,665.87	\$ 639,744.32	\$ 1,464,755.63	\$ 426,509.96	\$ 34,751.19	\$ 43,156.72	\$ 83,003.21	\$ 1,299,817.34	\$ 8,447,404.24

5) Services provided are:

Compliance, Legal, and Environmental Affairs Services	\$ 1,978.46
Corporate Communications and Public Affairs Management Services	520.01
Corporate Tax and Payroll Organization Services	46,193.68
Customer and Customer-Related Services	49,919.84
Distribution Operations Services	479,930.53
Energy Supply and Analysis Services	2.78
Executive Management Services	1,790.18
Financial Planning and Budgeting Services	(186.96)
HR Services	64,598.38
IT Services	555,125.58
Operating Services	221,532.23
Power Production and Generation Services	5,588,026.23
Regulatory Affairs and Government Affairs Management Services	(11.39)
Supply Chain and Logistics Services	1,149.52
Transmission Operations & Services	1,431,827.01
Transportation Services	1,135.86
Treasury Services	3,872.30
Total²	\$ 8,447,404.24

6) LG&E's and KU's cost allocation policies are to use at-cost pricing for affiliate transactions, without any profit component.

7) Transfers or sales of assets, goods or services between KU and LG&E are priced at cost, which approximates market value.

8) The percentage of costs charged to capital or expense are as follows:

Capital	\$ 4,455,665.87	52.75%
Expense	3,991,738.37	47.25%
Total	\$ 8,447,404.24	100.00%

9) Allocation percentages for overhead calculations on labor as applicable in 2018 are as follows:

Part-Time Labor	66.01%
Temporary Labor and Overtime	18.68%
Full-Time Labor	66.01%

Allocation percentages for overhead calculations on material issued from inventory in 2018 are as follows:

Stores, Freight & Handling - T & D	11.33%
Stores, Freight & Handling - Production	18.17%

Allocation percentages on labor and non-labor for capital projects in 2018 are as follows:

Administrative and General	1.89%
Construction Overheads - Production	-1.42%
Construction Overheads - Transmission	8.90%
Construction Overheads - Distribution	11.75%

Allocation percentages for overhead calculations on all labor from departments to which a vehicle is assigned for 2018 are as follows:

Vehicle Cost Allocation	14.67%
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10) There was one asset transfer from KU to LG&E over \$250,000:

3 Spare Transmission Breakers	\$ 263,932.61
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11) Transfer of assets from KU to LG&E less than \$250,000 are as follows:

Transfer of distribution equipment	\$ 39,080.77
Transfer of transmission equipment	45,700.57
Transfer of generation equipment	75,730.00
Total	\$ 160,511.34

12) Receivables are netted against payables to the same affiliate (see response to question 4 in Exhibit No. 2A) and net settlements occur in the following month.

¹ A portion of labor overhead amounts are not included. Due to system configuration and functionality given the volume of transactions, labor overheads are not separately identifiable as services provided by or for the affiliate, but are included as a reduction to the amounts included in Benefits/Overheads in component costs on Exhibit No. VSCC-2A.

² A portion of labor overhead amounts are not included. Due to system configuration and functionality given the volume of transactions, labor overheads are not separately identifiable as services provided by or for the affiliate, but are included as a reduction to the amounts included in services provided on Exhibit No. VSCC-2A.

KENTUCKY UTILITIES COMPANY
ANNUAL REPORT OF AFFILIATE TRANSACTIONS WITH
LG&E AND KU SERVICES COMPANY
January 1, 2018 - December 31, 2018

No. 10

Kentucky Utilities Company, d/b/a/ Old Dominion Power Company, shall file an Annual Report of Affiliate Transactions undertaken with Louisville Gas and Electric Company and LG&E and KU Services Company with the Director of the Division of Utility Accounting and Finance (formerly "Public Utility Accounting") of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999. Such report should include the following information:

- 1) identification of the affiliates involved in each transaction;
- 2) description of each affiliate arrangement/agreement and case number in which the transactions were approved;
- 3) dates of each affiliate arrangement/agreement;
- 4) description of transactions by component cost by month and in total;
- 5) description of services provided;
- 6) profit component of each arrangement/agreement where services are provided to an affiliate and how such component is determined;
- 7) comparable market values and documentation related to each arrangement/agreement;
- 8) percent/dollar amount of each affiliate arrangement/agreement charged to expense and/or capital accounts;
- 9) allocation bases/factors for allocated costs; please see also the Company's Cost Allocation Manual for a description of allocation methods used;
- 10) list and description of each utility asset transfer over \$250,000;
- 11) list by functional group of utility assets transfers valued less than \$250,000;
- 12) dollar amount either paid to, or received by, KU/ODP for each transaction per month.

RESPONSES:

- 1) LG&E and KU Services Company
- 2) Amended and Restated Utility Services Agreement, Case Number: PUE-2015-00126
- 3) February 24, 2016
- 4) Component costs are:

Period	Capital Expenditures	Direct-Indirect Labor	Equipment/Facilities	Benefits/Overheads ¹	Materials/Fuels	Office and Administrative Services	Outside Services	Grand Total
Jan-2018	\$ -	\$ 72,679.20	\$ 331.34	\$ -	\$ (30.58)	\$ 2,780.14	\$ -	\$ 75,770.10
Feb-2018	-	56,955.38	250.00	-	-	3,310.18	1,937.49	62,453.05
Mar-2018	3,105.00	55,647.91	-	988,292.00	-	3,813.80	-	1,050,858.71
Apr-2018	-	57,607.40	211.90	(988,292.00)	305.15	6,145.17	3,517.29	(920,505.09)
May-2018	-	65,281.11	813.09	-	-	1,319.62	10,510.33	77,924.15
Jun-2018	-	68,804.13	408.00	120,055.00	-	5,005.67	10,012.50	204,285.30
Jul-2018	-	55,969.94	368.50	(120,055.00)	1,577.71	4,788.86	9,485.00	(47,864.99)
Aug-2018	-	61,712.53	358.31	-	-	3,179.61	905.52	66,155.97
Sep-2018	-	56,733.23	1,900.09	77,831.00	229.42	2,408.88	2,285.00	141,367.62
Oct-2018	517.61	67,753.23	481.50	(77,831.00)	-	3,095.10	1,160.00	(4,823.56)
Nov-2018	-	58,234.58	488.50	-	-	2,164.41	10,045.00	71,932.49
Dec-2018	-	58,312.51	-	1,496.20	-	4,371.34	-	64,180.05
Total	\$ 3,622.61	\$ 736,681.15	\$ 5,611.23	\$ 1,486.20	\$ 2,081.70	\$ 42,392.78	\$ 49,838.13	\$ 841,733.80

- 5) Services provided are:

Customer and Customer-Related Services	\$ 17,699.12
Distribution Operations Services	40,676.85
IT Services	775,061.29
Operating Services	8,439.17
Power Production and Generation Services	(142.63)
Total²	\$ 841,733.80

- 6) LG&E and KU Services Company's cost allocation policies are to use at-cost pricing for affiliate transactions, without any profit component.
- 7) Transfers or sales of assets, goods or services between KU and LG&E and KU Services Company are priced at cost, which approximates market value.
- 8) The percentage of costs charged to capital or expense are as follows:

Capital	\$ 3,622.61	0.43%
Expense	\$ 838,111.19	99.57%
	<u>\$ 841,733.80</u>	<u>100.00%</u>

- 9) Allocation percentages for overhead calculations on labor as applicable in 2018 are as follows:

Part-Time Labor	86.01%
Temporary Labor and Overtime	18.68%
Full-Time Labor	66.01%

Allocation percentages for overhead calculations on material issued from inventory in 2018 are as follows:

Stores, Freight & Handling - T & D	11.33%
Stores, Freight & Handling - Production	18.17%

Allocation percentages on labor and non-labor for capital projects in 2018 are as follows:

Administrative and General	1.88%
Construction Overheads - Production	-1.42%
Construction Overheads - Transmission	8.90%
Construction Overheads - Distribution	11.75%

Allocation percentages for overhead calculations on all labor from departments to which a vehicle is assigned for 2018 are as follows:

Vehicle Cost Allocation	14.67%
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- 10) There were no utility asset transfers over \$250,000.
- 11) There were no utility asset transfers under \$250,000.
- 12) Receivables are netted against payables to the same affiliate (see response to question 4 in Exhibit No. 2B) and net settlements occur in the following month. All PPL charges except for mutual assistance and goods not readily available from the market are settled through LKS. The details for the PPL charges settled through LKS can be found in Exhibit Nos. 1E, 1F, 2E, and 2F.

¹ Most labor overhead amounts are not included. Due to system configuration and functionality given the volume of transactions, labor overheads are not separately identifiable as services provided by or for the affiliate, but are included as a reduction to the amounts included in Benefits/Overheads in component costs on Exhibit No. VSCC-2B.

² Most labor overhead amounts are not included. Due to system configuration and functionality given the volume of transactions, labor overheads are not separately identifiable as services provided by or for the affiliate, but are included as a reduction to the amounts included in services provided on Exhibit No. VSCC-2B.

KENTUCKY UTILITIES COMPANY
ANNUAL REPORT OF AFFILIATE TRANSACTIONS WITH
LG&E AND KU SERVICES COMPANY (LG&E AND KU ENERGY LLC)
January 1, 2018 - December 31, 2018

No. 11

Kentucky Utilities Company, d/b/a/ Old Dominion Power Company, shall file an Annual Report of Affiliate Transactions indirectly undertaken for the benefit of non-regulated affiliates with the Director of the Division of Utility Accounting and Finance (formerly "Public Utility Accounting") of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999. Such report should include the following information:

- 1) identification of the non-regulated affiliates involved in each transaction;
- 2) description of each affiliate arrangement/agreement and case number in which the transactions were approved;
- 3) dates of each affiliate arrangement/agreement;
- 4) description of transactions by component cost by month and in total;
- 5) description of services provided;
- 6) profit component of each arrangement/agreement where services are provided to an affiliate and how such component is determined;
- 7) comparable market values and supporting documentation for each type of service provided;
- 8) dollar amount either paid to, or received by, KU/ODP for each transaction per month.

RESPONSES:

- 1) LG&E and KU Services Company (LG&E and KU Energy LLC)
- 2) Amended and Restated Utility Services Agreement, Case Number: PUE-2015-00128
- 3) February 24, 2016
- 4) Component costs are:

Period	Equipment/ Facilities	Total
Jan-2018	\$ 33,595.87	\$ 33,595.87
Feb-2018	33,595.87	33,595.87
Mar-2018	33,595.87	33,595.87
Apr-2018	35,277.36	35,277.36
May-2018	35,277.36	35,277.36
Jun-2018	-	-
Jul-2018	-	-
Aug-2018	-	-
Sep-2018	-	-
Oct-2018	-	-
Nov-2018	-	-
Dec-2018	-	-
Total¹	\$ 171,342.33	\$ 171,342.33

- 5) Services provided are:

Operating Services	\$ 171,342.33
Total¹	\$ 171,342.33

- 6) LG&E and KU Services Company's cost allocation policies are to use at-cost pricing for affiliate transactions, without any profit component.
- 7) Transfers or sales of assets, goods or services between KU and LG&E and KU Services Company (LG&E and KU Energy LLC) are priced at cost, which approximates market value.
- 8) Receivables are netted against payables to the same affiliate (see response to question 4 in Exhibit No. 2C) and net settlements occur in the following month.

¹ An accounting change was made starting in June 2018 to record the tenant amortization credit on the LG&E Building lease through LKS. It is therefore included as a reduction to the amount reported on Exhibit No. VSCC-2B.

KENTUCKY UTILITIES COMPANY
ANNUAL REPORT OF AFFILIATE TRANSACTIONS WITH
LG&E AND KU SERVICES COMPANY (PPL SERVICES CORPORATION)
January 1, 2018 - December 31, 2018

No. 11

Kentucky Utilities Company, d/b/a/ Old Dominion Power Company, shall file an Annual Report of Affiliate Transactions indirectly undertaken for the benefit of non-regulated affiliates with the Director of the Division of Utility Accounting and Finance (formerly "Public Utility Accounting") of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999. Such report should include the following information:

- 1) Identification of the non-regulated affiliates involved in each transaction;
- 2) description of each affiliate arrangement/agreement and case number in which the transactions were approved;
- 3) dates of each affiliate arrangement/agreement;
- 4) description of transactions by component cost by month and in total;
- 5) description of services provided;
- 6) profit component of each arrangement/agreement where services are provided to an affiliate and how such component is determined;
- 7) comparable market values and supporting documentation for each type of service provided;
- 8) dollar amount either paid to, or received by, KU/ODP for each transaction per month.

RESPONSES:

- 1) LG&E and KU Services Company (PPL Services Corporation, on behalf of PPL EU Services Corporation)
- 2) Data Hosting Agreement, Case Number: PUE-2015-00126
- 3) February 24, 2016
- 4) Component costs are:

Period	Equipment/ Facilities	Total
Jan-2018	\$ 12,563.59	\$ 12,563.59
Feb-2018	12,563.59	12,563.59
Mar-2018	12,563.59	12,563.59
Apr-2018	12,563.59	12,563.59
May-2018	12,563.59	12,563.59
Jun-2018	-	-
Jul-2018	-	-
Aug-2018	-	-
Sep-2018	-	-
Oct-2018	(0.01)	(0.01)
Nov-2018	-	-
Dec-2018	-	-
Total	\$ 62,817.94	\$ 62,817.94

- 5) Services provided are:

Controller Organization Services	\$ (0.01)
IT Services	62,817.95
Total	\$ 62,817.94

- 6) KU's cost allocation policies are to use at-cost pricing for affiliate transactions, without any profit component.
- 7) Transfers or sales of assets, goods or services between KU and LG&E and KU Services Company (on behalf of PPL Services Corporation) are priced at cost, which approximates market value.
- 8) Receivables are netted against payables to the same affiliate (see response to question 4 in Exhibit No. 2D) and net settlements occur in the following month through LKS. See the response to question 12 on Exhibit No. 1B.

**KENTUCKY UTILITIES COMPANY
ANNUAL REPORT OF AFFILIATE TRANSACTIONS WITH
LG&E AND KU SERVICES COMPANY (PPL EU SERVICES CORPORATION)
January 1, 2018 - December 31, 2018**

No. 11

Kentucky Utilities Company, d/b/a/ Old Dominion Power Company, shall file an Annual Report of Affiliate Transactions indirectly undertaken for the benefit of non-regulated affiliates with the Director of the Division of Utility Accounting and Finance (formerly "Public Utility Accounting") of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999. Such report should include the following information:

- 1) identification of the non-regulated affiliates involved in each transaction;
- 2) description of each affiliate arrangement/agreement and case number in which the transactions were approved;
- 3) dates of each affiliate arrangement/agreement;
- 4) description of transactions by component cost by month and in total;
- 5) description of services provided;
- 6) profit component of each arrangement/agreement where services are provided to an affiliate and how such component is determined;
- 7) comparable market values and supporting documentation for each type of service provided;
- 8) dollar amount either paid to, or received by, KU/ODP for each transaction per month.

RESPONSES:

- 1) LG&E and KU Services Company (on behalf of PPL EU Services Corporation)
- 2) Data Hosting Agreement, Case Number: PUR-2018-00049
- 3) June 29, 2018
- 4) Component costs are:

Period	Equipment/ Facilities	Office and Administrative Services	Total
Jan-2018	\$ -	\$ -	\$ -
Feb-2018	-	-	-
Mar-2018	-	-	-
Apr-2018	-	-	-
May-2018	-	-	-
Jun-2018	12,563.59	-	12,563.59
Jul-2018	12,563.59	-	12,563.59
Aug-2018	12,563.59	-	12,563.59
Sep-2018	12,563.59	-	12,563.59
Oct-2018	12,563.59	-	12,563.59
Nov-2018	12,563.59	-	12,563.59
Dec-2018	12,563.59	23,240.23	35,803.82
Total	\$ 87,945.13	\$ 23,240.23	\$ 111,185.36

- 5) Services provided are:

IT Services	\$ 111,185.36
Total	\$ 111,185.36

- 6) KU's cost allocation policies are to use at-cost pricing for affiliate transactions, without any profit component.
- 7) Transfers or sales of assets, goods or services between KU and LG&E and KU Services Company (on behalf of PPL EU Services Corporation) are priced at cost, which approximates market value.
- 8) Settlements of current month receivables are due in the following month and are processed through LKS.

2017 VA ARAT
 KU Recipient of Service (Payables)
 VASCC-2 By Month and CAM Category

CAM Category	Jan-2018	Feb-2018	Mar-2018	Apr-2018	May-2018	Jun-2018	Jul-2018	Aug-2018	Sep-2018	Oct-2018	Nov-2018	Dec-2018	Total
Audit Services	\$ 60,153.88	\$ 58,519.88	\$ 60,539.44	\$ 64,584.67	\$ 67,929.78	\$ 65,518.15	\$ 68,844.38	\$ 63,710.17	\$ 44,899.05	\$ 52,781.51	\$ 42,452.74	\$ 40,882.94	\$ 688,914.57
Compliance, Legal, and Environmental Affairs Services	940,768.16	892,695.07	770,680.78	1,094,021.22	748,271.08	1,017,467.68	1,096,324.35	1,282,750.25	704,187.61	1,246,377.02	877,882.14	1,247,759.10	11,728,384.33
Controller Organization Services	182,013.60	168,224.88	182,911.51	189,725.71	187,223.90	147,572.09	181,777.24	168,309.58	150,800.64	173,542.83	184,282.50	189,563.15	2,023,863.71
Corporate Communications and Public Affairs Management Services	108,602.88	122,967.03	131,703.24	196,398.98	145,881.08	103,848.43	99,488.33	164,142.13	109,284.82	114,187.27	137,873.24	182,894.81	1,607,132.32
Corporate Tax and Payroll Organization Services	555,402.07	468,732.68	742,349.14	372,358.60	498,626.48	468,874.30	501,322.69	550,954.61	415,383.28	418,635.42	324,912.07	391,475.23	5,703,008.53
Customer and Customer-Related Services	1,348,529.63	1,278,942.25	1,694,678.58	1,312,801.24	1,374,759.67	1,303,241.94	1,375,761.13	1,542,388.18	1,210,376.92	1,488,118.61	1,370,019.41	1,403,012.55	16,570,828.11
Distribution Operations Services	1,228,531.44	854,314.24	1,043,947.77	967,139.73	882,433.80	1,135,187.00	982,075.35	1,118,582.62	826,234.07	1,288,906.68	1,003,732.19	1,074,607.08	12,492,681.97
Energy Supply and Analysis Services	357,403.29	387,343.18	270,063.01	288,682.88	258,880.77	332,037.17	357,589.35	328,388.84	381,720.31	384,260.37	304,007.78	254,877.08	3,869,883.82
Executive Management Services	573,293.57	543,376.54	521,000.39	502,222.14	519,440.79	447,681.57	604,381.41	504,631.67	431,385.67	503,444.16	429,243.57	444,594.40	5,825,065.88
Financial Planning and Budgeting Services	193,612.56	182,196.68	183,094.92	176,769.61	184,318.29	183,674.39	150,282.95	177,417.19	155,107.29	179,181.40	169,835.28	170,105.28	2,098,486.12
HR Services	2,107,601.18	1,913,772.97	2,223,478.28	1,900,799.66	1,839,210.55	2,083,907.71	1,842,180.70	2,082,858.15	2,081,283.65	2,081,100.73	1,800,888.23	1,048,322.87	23,105,413.88
IT Services	4,583,788.03	3,060,900.30	2,602,408.59	3,794,803.99	4,084,852.43	2,608,437.36	2,857,528.67	3,223,276.30	3,228,238.05	3,880,755.48	4,607,093.27	3,896,390.07	42,505,388.54
Operating Services	983,633.97	1,068,282.84	1,080,610.48	913,409.79	1,148,377.58	898,896.61	1,082,510.73	1,272,184.88	991,828.35	990,884.94	949,467.58	1,349,072.23	12,553,240.72
Power Production and Generation Services	3,114,289.91	2,778,882.47	3,278,163.49	2,820,393.11	3,122,057.49	2,757,065.40	2,704,859.82	3,043,990.01	2,481,179.28	2,948,467.04	2,634,940.13	2,600,238.34	34,291,828.47
Regulatory Affairs and Government Affairs Management Services	0,732.94	11,613.38	8,524.75	14,280.20	12,468.94	13,081.51	10,955.84	11,884.75	8,885.76	10,393.11	14,496.73	7,824.69	133,900.30
Sarbanes-Oxley Compliance Services	10,448.02	5,448.22	3,568.32	3,396.52	8,554.90	10,178.88	10,025.82	11,519.70	9,077.89	10,884.73	7,655.31	9,183.02	100,019.31
Supply Chain and Logistics Services	228,511.48	107,997.74	194,981.02	190,575.81	200,817.67	208,939.28	188,020.90	289,999.78	188,589.28	289,327.84	232,458.73	182,200.08	2,521,419.30
Transmission Operations & Services	1,632,207.15	1,683,850.33	1,811,147.12	1,806,087.75	1,824,380.88	1,778,448.90	1,585,520.58	1,863,884.02	1,558,444.06	1,903,476.22	1,595,879.41	1,852,457.45	20,373,800.65
Transportation Services	24,605.62	23,632.77	22,467.45	27,124.14	34,549.23	29,042.43	28,213.19	32,887.26	23,050.88	31,519.19	29,051.28	20,628.90	324,952.32
Treasury Services	89,149.48	77,179.06	74,788.87	77,377.98	83,751.82	78,013.13	71,059.75	77,388.27	73,218.15	87,944.33	75,034.01	74,422.58	888,384.48
Total	\$ 18,289,273.84	\$ 18,222,878.57	\$ 16,859,594.11	\$ 18,481,043.45	\$ 17,404,184.67	\$ 15,841,019.89	\$ 15,658,501.88	\$ 17,807,578.43	\$ 15,070,840.09	\$ 17,881,768.78	\$ 16,771,585.54	\$ 16,448,341.65	\$ 199,555,589.20

Refer to the LG&E and KU Services Cost Allocation Manual filed with the 2018 Virginia Annual Report of Affiliate Transactions for a description of services, the nature and frequency of services provided, cost apportionment methodology, and methods.

Exhibit No. VASCC-2A	\$ 27,805,889.11
Exhibit No. VASCC-2B	188,972,880.98
Exhibit No. VASCC-2C	1,037.32
Exhibit No. VASCC-2D	2,774,487.41
Exhibit No. VASCC-2E	1,184.40
Total	\$ 199,555,589.20

Convenience Payments:	
Coal Purchases	\$ 311,576,545.30
Gas Purchases	127,568,055.42
Capital Expenditures	114,886,217.18
Jointly Owned Plant Alloc	66,854,988.54
Power Sales/Purchases	47,014,044.46
Outside Services	34,873,488.38
Benefits	32,810,813.88
Start-Up Fuel/Reagent Purchases	22,465,769.45
Equipment/Facilities/Prepayments	11,529,517.33
Purchased Material	5,711,405.07
Cash received by KU on behalf of LG&E	3,051,164.07
Other	15,224,753.85
Total	\$ 793,152,732.89

Other Excluded Non-Service Transactions	
Tax Settlements	\$ 32,520,022.88
Other Net Accruals and Misc	(182,504.80)
Total	\$ 32,337,517.88

Grand Total	\$ 1,025,045,839.75
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**KENTUCKY UTILITIES COMPANY
ANNUAL REPORT OF AFFILIATE TRANSACTIONS WITH
LOUISVILLE GAS AND ELECTRIC COMPANY
January 1, 2016 - December 31, 2018**

No. 10

Kentucky Utilities Company, d/b/a/ Old Dominion Power Company, shall file an Annual Report of Affiliate Transactions undertaken with Louisville Gas and Electric Company and LG&E KU Services Company with the Director of the Division of Utility Accounting and Finance (formerly "Public Utility Accounting") of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999. Such report should include the following information:

- 1) Identification of the affiliates involved in each transaction;
- 2) description of each affiliate arrangement/agreement and case number in which the transactions were approved;
- 3) dates of each affiliate arrangement/agreement;
- 4) description of transactions by component cost by month and in total;
- 5) description of services provided, consistent with the Company's Cost Allocation Manual;
- 6) profit component of each arrangement/agreement where services are provided by an affiliate and how such component is determined;
- 7) comparable market values and documentation related to each arrangement/agreement;
- 8) percent/dollar amount of each affiliate arrangement/agreement charged to expense and/or capital accounts;
- 9) allocation bases/factors for allocated costs; please see also the Company's Cost Allocation Manual for a description of allocation methods used;
- 10) list and description of each utility asset transfer over \$250,000;
- 11) list by functional group of utility assets transfers valued less than \$250,000;
- 12) dollar amount either paid to, or received by, KU/ODP per month.

RESPONSES:

- 1) Louisville Gas and Electric Company
- 2) Amended and Restated Utility Services Agreement, Case Number: PUE-2015-00126
- 3) February 24, 2016
- 4) Component costs are:

Period	Capital Expenditures	Direct-Indirect Labor	Equipment/Facilities	Benefits/Overheads	Materials/Fuels	Office and Administrative Services	Outside Services	Transmission	Total
Jan-2018	\$ 281,682.44	\$ 1,067,623.54	\$ 39,209.54	\$ 722,045.88	\$ 585.85	\$ 2,391.78	\$ 4,059.61	\$ 238,634.03	\$ 2,347,432.65
Feb-2018	184,782.05	990,611.66	29,116.42	864,470.28	147.49	5,150.70	9,018.62	248,498.30	2,111,795.50
Mar-2018	410,440.58	1,165,362.99	40,519.40	933,673.35	2,426.58	9,177.39	3,173.45	204,151.97	2,765,925.71
Apr-2018	222,876.67	1,048,123.24	54,707.10	654,876.20	988.60	2,289.05	12,111.32	210,633.12	2,206,607.30
May-2018	254,442.47	1,181,026.42	33,889.58	996,480.58	27.20	2,103.40	4,506.88	190,069.51	2,362,525.04
Jun-2018	343,173.87	872,302.39	37,277.89	826,623.24	209.07	3,621.70	4,318.76	239,463.19	2,428,320.11
Jul-2018	139,014.16	871,020.84	36,093.84	613,728.11	74.35	2,762.01	3,073.44	288,486.68	2,054,283.22
Aug-2018	139,403.24	1,091,700.10	37,718.04	700,024.91	47.53	3,588.90	2,537.14	245,511.49	2,219,529.35
Sep-2018	191,430.76	946,163.68	38,330.52	781,274.27	313.85	2,154.92	41,873.40	269,813.75	2,291,345.14
Oct-2018	359,153.17	1,139,637.22	36,762.22	593,370.02	(653.00)	15,238.65	76,874.01	287,787.30	2,508,309.59
Nov-2018	302,750.24	981,203.67	37,033.62	504,890.02	8,295.85	2,451.85	46,878.18	236,763.99	2,120,098.42
Dec-2018	440,238.09	888,893.20	108,615.91	746,397.19	48.00	14,174.68	16,259.88	185,090.23	2,389,717.08
Total	\$ 3,248,691.62	\$ 12,413,958.76	\$ 629,262.98	\$ 6,440,753.01	\$ 12,811.37	\$ 62,133.13	\$ 224,484.69	\$ 2,873,973.56	\$ 27,805,889.11

5) Services provided are:

Compliance, Legal, and Environmental Affairs Services	\$ 110.00
Corporate Tax and Payroll Organization Services	38,184.29
Customer and Customer-Related Services	65,168.20
Distribution Operations Services	731,280.67
Energy Supply and Analysis Services	2,724,212.70
Executive Management Services	(988.89)
Financial Planning and Budgeting Services	720.99
HR Services	916,630.16
IT Services	622,143.42
Operating Services	484,414.83
Power Production and Generation Services	21,220,478.01
Regulatory Affairs and Government Affairs Management Services	3,730.53
Supply Chain and Logistics Services	158,675.79
Transmission Operations & Services	823,122.98
Transportation Services	1,505.90
Treasury Services	4,267.53
Total	\$ 27,805,889.11

- 6) LG&E's and KU's cost allocation policies are to use at-cost pricing for affiliate transactions, without any profit component.
- 7) Transfers or sales of assets, goods or services between KU and LG&E are priced at cost, which approximates market value.
- 8) The percentage of costs charged to capital or expense are as follows:

Capital	\$ 3,248,691.62	11.68%
Expense	24,557,197.49	88.32%
Total	\$ 27,805,889.11	100.00%
- 9) Allocation percentages for overhead calculations on labor as applicable in 2018 are as follows:

Part-Time Labor	68.30%
Temporary Labor and Overtime	19.07%
Full-Time Labor	68.30%

Allocation percentages for overhead calculations on material issued from inventory in 2018 are as follows:

Stores, Freight & Handling - T & D	7.17%
Stores, Freight & Handling - Production	18.17%

Allocation percentages on labor and non-labor for capital projects in 2018 are as follows:

Administrative and General	1.51%
Construction Overheads - Production	-1.42%
Construction Overheads - Transmission	22.05%
Construction Overheads - Electric Distribution	9.00%

Allocation percentages for overhead calculations on all labor from departments to which a vehicle is assigned for 2018 are as follows:

Vehicle Cost Allocation	7.50%
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- 10) There were no asset transfers over \$250,000.
- 11) Transfer of assets from LG&E to KU under \$250,000 are as follows:

Transfer of distribution equipment	\$ 185,492.99
Transfer of transmission equipment	143,425.03
Total	\$ 328,918.02
- 12) Payables are netted against receivables from the same affiliate (see response to question 4 in Exhibit No. 1A) and net settlements occur in the following month.

**KENTUCKY UTILITIES COMPANY
ANNUAL REPORT OF AFFILIATE TRANSACTIONS WITH
LG&E AND KU SERVICES COMPANY
January 1, 2018 - December 31, 2018**

No. 10

Kentucky Utilities Company, d/b/a/ Old Dominion Power Company, shall file an Annual Report of Affiliate Transactions undertaken with Louisville Gas and Electric Company and LG&E and KU Services Company with the Director of the Division of Utility Accounting and Finance (formerly "Public Utility Accounting") of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999. Such report should include the following information:

- 1) identification of the affiliates involved in each transaction;
- 2) description of each affiliate arrangement/agreement and case number in which the transactions were approved;
- 3) dates of each affiliate arrangement/agreement;
- 4) description of transactions by component cost by month and in total;
- 5) description of services provided, consistent with the Company's Cost Allocation Manual;
- 6) profit component of each arrangement/agreement where services are provided by an affiliate and how such component is determined;
- 7) comparable market values and documentation related to each arrangement/agreement;
- 8) percent/dollar amount of each affiliate arrangement/agreement charged to expense and/or capital accounts;
- 9) allocation bases/factors for allocated costs; please see also the Company's Cost Allocation Manual for a description of allocation methods used;
- 10) list and description of each utility asset transfer over \$250,000;
- 11) list by functional group of utility assets transfers valued less than \$250,000;
- 12) dollar amount either paid to, or received by, KU/ODP per month.

RESPONSES:

- 1) LG&E and KU Services Company
- 2) Amended and Restated Utility Services Agreement, Case Number: PUE-2016-00126
- 3) February 24, 2016
- 4) Component costs are:

Period	Capital Expenditures	Direct-Indirect Labor	Equipment/Facilities	Benefits/Overheads	Materials/Fuels	Office and Administrative Services	Outside Services	Total
Jan-2018	\$ 3,372,289.74	\$ 5,286,545.33	\$ 1,663,682.40	\$ 4,000,554.68	\$ 22,268.18	\$ 460,897.35	\$ 919,361.07	\$ 15,725,588.75
Feb-2018	2,339,621.97	4,816,823.53	937,195.75	3,638,047.27	10,049.11	481,133.40	730,928.28	12,953,799.29
Mar-2018	2,217,909.42	5,219,984.78	1,104,867.19	3,919,387.91	2,764.11	457,853.09	1,032,819.27	13,955,585.77
Apr-2018	2,080,913.96	4,836,671.68	1,844,774.65	3,560,634.48	28,249.20	525,251.00	1,163,289.02	14,019,683.99
May-2018	2,266,194.99	5,162,038.31	2,002,084.08	3,820,514.73	1,065.01	520,742.08	868,988.05	14,629,608.13
Jun-2018	1,973,822.01	4,801,697.21	684,104.80	3,681,225.31	12,389.92	427,249.84	1,362,728.42	13,023,217.51
Jul-2018	2,247,658.02	4,958,231.29	788,763.69	3,555,211.94	23,624.66	444,461.92	1,310,759.78	13,326,711.30
Aug-2018	2,108,144.97	5,469,385.77	1,481,963.39	4,056,914.67	4,175.92	660,154.46	1,622,341.74	15,413,080.92
Sep-2018	2,021,361.52	4,531,950.70	1,178,232.54	3,511,040.77	1,917.21	451,018.19	926,763.47	12,622,274.40
Oct-2018	2,665,700.18	5,423,639.02	1,338,157.24	3,861,184.44	21,123.11	508,520.44	1,266,239.55	15,084,563.98
Nov-2018	3,527,744.77	4,706,032.22	1,023,470.95	3,341,521.54	2,580.30	542,846.68	1,305,528.70	14,449,725.16
Dec-2018	2,111,484.66	4,069,494.87	2,113,760.17	3,185,478.93	2,523.43	659,387.84	1,627,011.86	13,769,141.76
Total	\$ 28,902,846.21	\$ 59,382,384.71	\$ 16,169,056.83	\$ 44,111,716.67	\$ 132,720.16	\$ 6,139,516.29	\$ 14,134,730.09	\$ 168,972,980.86

5) Services provided are:

Audit Services	\$ 688,914.57
Compliance, Legal, and Environmental Affairs Services	10,628,403.34
Controller Organization Services	1,961,209.25
Corporate Communications and Public Affairs Management Services	1,607,132.32
Corporate Tax and Payroll Organization Services	5,664,822.24
Customer and Customer-Related Services	18,452,771.08
Distribution Operations Services	11,761,391.30
Energy Supply and Analysis Services	1,145,651.12
Executive Management Services	5,442,789.29
Financial Planning and Budgeting Services	2,095,775.13
HR Services	22,184,152.98
IT Services	41,144,180.72
Operating Services	11,906,234.73
Power Production and Generation Services	13,071,348.46
Regulatory Affairs and Government Affairs Management Services	130,169.77
Sarbanes-Oxley Compliance Services	100,019.31
Supply Chain and Logistics Services	2,382,543.58
Transmission Operations & Services	19,550,683.67
Transportation Services	323,446.42
Treasury Services	753,361.68
Total	\$ 168,972,980.86

6) LG&E and KU Services Company's cost allocation policies are to use at-cost pricing for affiliate transactions, without any profit component.

7) Transfers or sales of assets, goods or services between KU and LG&E and KU Services Company are priced at cost, which approximates market value.

8) The percentage of costs charged to capital or expense are as follows:

Capital	\$ 28,902,846.21	17.11%
Expense	140,070,134.75	82.89%
Total	\$ 168,972,980.96	100.00%

9) Allocation percentages for overhead calculations on labor as applicable in 2018 are as follows:

Part-Time Labor	76.31%
Temporary Labor and Overtime	22.15%
Full-Time Labor	76.31%

Allocation percentages on labor and non-labor for capital projects in 2018 are as follows:

Administrative and General	1.82%
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Allocation percentages for overhead calculations on all labor from departments to which a vehicle is assigned for 2018 are as follows:

Vehicle Cost Allocation	2.31%
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10) There were no utility asset transfers over \$250,000.

11) There were no utility asset transfers under \$250,000.

12) Payables are netted against receivables from the same affiliate (see response to question 4 in Exhibit No. 1B) and net settlements occur in the following month. All PPL charges except for mutual assistance and goods not readily available from the market are settled through LKS. The details for the PPL charges settled through LKS can be found in Exhibit Nos. 1E, 1F, 2E, and 2F.

**KENTUCKY UTILITIES COMPANY
ANNUAL REPORT OF AFFILIATE TRANSACTIONS WITH
LG&E AND KU SERVICES COMPANY (LG&E AND KU ENERGY LLC)
January 1, 2018 - December 31, 2018**

No. 11

Kentucky Utilities Company, d/b/a/ Old Dominion Power Company, shall file an Annual Report of Affiliate Transactions undertaken with Louisville Gas and Electric Company and LG&E and KU Services Company with the Director of the Division of Utility Accounting and Finance (formerly "Public Utility Accounting") of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999. Such report should include the following information:

- 1) identification of the non-regulated affiliates involved in each transaction;
- 2) description of each affiliate arrangement/agreement and case number in which the transactions were approved;
- 3) dates of each affiliate arrangement/agreement;
- 4) description of transactions by component cost by month and in total;
- 5) description of services provided;
- 6) profit component of each arrangement/agreement where services are provided to an affiliate and how such component is determined;
- 7) comparable market values and supporting documentation for each type of service provided;
- 8) dollar amount either paid to, or received by, KU/ODP for each transaction per month.

RESPONSES:

- 1) LG&E and KU Services Company (LG&E and KU Energy LLC)
- 2) Amended and Restated Utility Services Agreement, Case Number: PUE-2015-00126
- 3) February 24, 2016
- 4) Component costs are:

Period	Equipment/ Facilities	Total
Jan-2018	\$ -	\$ -
Feb-2018	-	-
Mar-2018	-	-
Apr-2018	-	-
May-2018	-	-
Jun-2018	-	-
Jul-2018	1,037.32	1,037.32
Aug-2018	-	-
Sep-2018	-	-
Oct-2018	-	-
Nov-2018	-	-
Dec-2018	-	-
Total	\$ 1,037.32	\$ 1,037.32

- 5) Services provided are:

Operating Services	\$ 1,037.32
Total	\$ 1,037.32

- 6) LG&E and KU Services Company's cost allocation policies are to use at-cost pricing for affiliate transactions, without any profit component.
- 7) Transfers or sales of assets, goods or services between KU and LG&E and KU Services Company (LG&E and KU Energy LLC) are priced at cost, which approximates market value.
- 8) Payable are netted against receivables from the same affiliate (see response to question 4 in Exhibit No. 1C) and net settlements occur in the following month.

KENTUCKY UTILITIES COMPANY
ANNUAL REPORT OF AFFILIATE TRANSACTIONS WITH
LG&E AND KU SERVICES COMPANY (PPL SERVICES CORPORATION)
January 1, 2018 - December 31, 2018

No. 11

Kentucky Utilities Company, d/b/a/ Old Dominion Power Company, shall file an Annual Report of Affiliate Transactions undertaken with Louisville Gas and Electric Company and LG&E and KU Services Company with the Director of the Division of Utility Accounting and Finance (formerly "Public Utility Accounting") of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999. Such report should include the following information:

- 1) identification of the non-regulated affiliates involved in each transaction;
- 2) description of each affiliate arrangement/agreement and case number in which the transactions were approved;
- 3) dates of each affiliate arrangement/agreement;
- 4) description of transactions by component cost by month and in total;
- 5) description of services provided;
- 6) profit component of each arrangement/agreement where services are provided to an affiliate and how such component is determined;
- 7) comparable market values and supporting documentation for each type of service provided;
- 8) dollar amount either paid to, or received by, KU/ODP for each transaction per month.

RESPONSES:

- 1) LG&E and KU Services Company (on behalf of PPL Services Corporation)
- 2) Amended and Restated Utility Services Agreement, Case Number: PUE-2015-00126
- 3) February 24, 2016
- 4) Component costs are:

Period	Equipment/ Facilities	Outside Services	Total
Jan-2018	\$ 19,428.39	\$ 206,824.05	\$ 226,252.44
Feb-2018	23,089.96	133,577.82	156,667.78
Mar-2018	17,830.73	119,683.50	137,514.23
Apr-2018	21,615.67	243,136.49	264,752.16
May-2018	13,196.16	398,835.54	412,031.70
Jun-2018	19,535.96	169,946.41	189,482.37
Jul-2018	13,186.04	261,284.10	274,470.14
Aug-2018	14,777.79	160,188.07	174,965.86
Sep-2018	11,908.38	145,312.17	157,220.55
Oct-2018	14,193.24	274,701.97	288,895.21
Nov-2018	16,939.33	184,822.63	201,761.96
Dec-2018	19,453.96	271,029.05	290,483.01
Total	\$ 205,155.61	\$ 2,569,341.80	\$ 2,774,497.41

- 5) Services provided are:

Compliance, Legal, and Environmental Affairs Services	\$ 1,102,850.99
Controller Organization Services	62,774.46
Customer and Customer-Related Services	22,888.83
Executive Management Services	483,263.48
HR Services	2,630.54
IT Services	737,860.00
Operating Services	181,553.84
Treasury Services	<u>180,675.27</u>
Total	<u>\$ 2,774,497.41</u>

- 6) KU's cost allocation policies are to use at-cost pricing for affiliate transactions, without any profit component.
- 7) Transfers or sales of assets, goods or services between KU and LG&E and KU Services Company (on behalf of PPL Services Corporation) are priced at cost, which approximates market value.
- 8) Payables are netted against receivables from the same affiliate (see the responses to question 4 in Exhibit No. 1D) and net settlements occur in the following month through LKS. See the response to question 12 on Exhibit No. 2B.

**KENTUCKY UTILITIES COMPANY
ANNUAL REPORT OF AFFILIATE TRANSACTIONS WITH
LG&E AND KU SERVICES COMPANY (PPL EU SERVICES CORPORATION)
January 1, 2018 - December 31, 2018**

No. 11

Kentucky Utilities Company, d/b/a/ Old Dominion Power Company, shall file an Annual Report of Affiliate Transactions undertaken with Louisville Gas and Electric Company and LG&E and KU Services Company with the Director of the Division of Utility Accounting and Finance (formerly "Public Utility Accounting") of the Commission by no later than May 1 of each year, for the preceding calendar year, beginning May 1, 1999. Such report should include the following information:

- 1) Identification of the non-regulated affiliates involved in each transaction;
- 2) description of each affiliate arrangement/agreement and case number in which the transactions were approved;
- 3) dates of each affiliate arrangement/agreement;
- 4) description of transactions by component cost by month and in total;
- 5) description of services provided;
- 6) profit component of each arrangement/agreement where services are provided to an affiliate and how such component is determined;
- 7) comparable market values and supporting documentation for each type of service provided;
- 8) dollar amount either paid to, or received by, KU/ODP for each transaction per month.

RESPONSES:

- 1) LG&E and KU Services Company (on behalf of PPL EU Services Corporation)
- 2) Amended and Restated Utility Services Agreement, Case Number: PUE-2015-00126
- 3) February 24, 2016
- 4) Component costs are:

Period	Capital Expenditures	Total
Jan-2018	\$ -	\$ -
Feb-2018	616.00	616.00
Mar-2018	568.40	568.40
Apr-2018	-	-
May-2018	-	-
Jun-2018	-	-
Jul-2018	-	-
Aug-2018	-	-
Sep-2018	-	-
Oct-2018	-	-
Nov-2018	-	-
Dec-2018	-	-
Total	\$ 1,184.40	\$ 1,184.40

- 5) Services provided are:

IT Services	<u>\$ 1,184.40</u>
Total	<u>\$ 1,184.40</u>

- 6) KU's cost allocation policies are to use at-cost pricing for affiliate transactions, without any profit component.
- 7) Transfers or sales of assets, goods or services between KU and LG&E and KU Services Company (on behalf of PPL EU Services Corporation) are priced at cost, which approximates market value.
- 8) Settlements of current month payables occur in the following month through LKS.

2018 VA ARAT
 KU Recipient of Services (Payables)
 LKS billings to KU/ODP by FERC account by month
 Order Granting Approval, Appendix Item 12b
 CASE NO. PUR-2018-00049

12b) An annual schedule showing LKS billings to KU/ODP by FERC account, month, and amount as they are recorded on KU/ODP's books

RESPONSE:

Services FERC Account	Jan-2018	Feb-2018	Mar-2018	Apr-2018	May-2018	Jun-2018	Jul-2018	Aug-2018	Sep-2018	Oct-2018	Nov-2018	Dec-2018	Total
107	\$ 3,155,373.79	\$ 2,139,679.09	\$ 1,989,337.68	\$ 1,853,376.27	\$ 1,988,809.71	\$ 1,739,286.44	\$ 1,997,798.70	\$ 1,842,532.29	\$ 1,778,086.43	\$ 2,389,215.42	\$ 3,280,280.33	\$ 1,890,298.30	\$ 26,054,062.45
108	216,915.05	189,942.68	228,571.74	207,537.69	267,385.28	234,535.57	249,859.32	265,612.88	243,263.09	270,484.70	237,458.44	221,186.36	2,848,753.76
142	-	-	-	-	-	-	-	-	-	-	-	911.23	911.23
163	101,019.77	108,304.33	107,289.11	108,754.80	108,116.49	104,229.40	93,573.32	115,370.94	93,327.08	113,958.15	99,028.59	84,717.52	1,237,689.50
165	1,137,707.51	526,589.02	631,773.37	1,389,102.35	1,571,672.10	373,827.88	308,794.73	996,659.00	725,994.61	950,471.90	648,904.87	1,287,405.30	10,508,902.64
183	30,902.07	5,558.49	1,208.91	5,960.32	(5,960.35)	-	12,448.32	70,243.12	18,637.85	608.88	13.91	140.92	139,960.42
184	1,013,275.33	916,822.18	969,945.42	939,006.68	1,120,322.55	1,071,376.01	1,019,894.63	1,192,887.54	998,652.08	1,154,141.84	993,607.52	908,678.09	12,285,587.65
186	3,589.40	-	10,918.60	403.50	24,701.78	56,960.83	55,954.85	5,243.70	109,155.06	10,477.34	218.11	-	277,633.17
232	-	-	(1,391.82)	(3,536.34)	(4,157.92)	(2,176.45)	285.91	(1,850.80)	961.72	-	-	-	(11,664.70)
408.1	439,524.08	403,792.58	489,030.73	408,677.75	431,014.22	419,313.61	411,384.25	451,918.86	378,436.13	324,883.32	280,418.44	317,658.57	4,735,032.54
426.4	40,959.72	82,107.58	34,978.16	56,488.84	39,103.79	60,970.22	37,342.40	61,299.33	42,159.50	50,033.42	48,648.81	48,382.76	585,131.53
426.5	25,639.56	22,614.32	40,428.03	42,348.84	80,752.40	48,130.20	64,212.37	31,244.19	48,621.32	70,285.14	44,957.77	140,393.69	859,625.63
500	338,254.47	323,557.39	359,412.37	340,565.59	335,183.52	318,775.38	288,888.43	360,124.28	291,379.02	349,591.92	279,978.48	281,278.53	3,973,789.36
501	80,312.99	72,489.88	89,232.62	87,441.21	82,821.75	76,365.37	80,502.99	81,707.04	71,971.11	80,473.48	73,061.96	88,052.72	921,433.07
502	7,920.56	7,888.01	6,798.43	7,978.38	7,751.75	6,373.80	9,713.58	7,933.97	3,477.06	3,786.65	6,960.22	6,007.15	79,589.59
506	423,383.03	422,552.50	234,717.29	31,128.18	143,191.39	74,736.91	80,510.45	923,532.82	80,124.18	340,103.70	160,174.82	248,162.09	2,480,316.12
510	40,249.58	41,478.02	43,724.85	63,125.11	60,812.02	79,042.48	148,880.79	43,507.09	35,052.48	50,535.29	48,863.52	45,469.61	699,570.62
511	5,802.92	3,087.80	6,781.60	5,322.33	2,822.11	3,965.78	4,145.01	6,503.88	5,188.88	2,545.90	5,188.88	3,319.86	55,904.39
512	8,446.43	7,299.24	1,397.65	10,078.37	4,759.06	5,781.17	1,154.79	86.39	-	85.40	1,108.53	3,830.11	50,004.14
513	33,588.55	23,957.57	12,824.81	9,283.43	23,250.05	20,648.59	33,514.57	24,085.14	32,879.08	39,008.01	48,604.16	35,881.36	335,891.07
514	-	1,821.89	414.86	55.03	901.94	423.37	177.49	11.48	-	-	-	-	3,905.98
549	-	-	470.00	-	-	-	-	-	-	-	-	-	470.00
553	-	-	498.00	-	-	-	-	-	-	-	-	-	498.00
556	174,145.74	153,232.24	166,532.77	144,106.04	138,523.14	119,213.83	141,680.09	150,987.80	145,917.20	183,258.78	149,090.70	158,100.24	1,802,788.37
560	126,574.00	123,373.68	138,368.05	121,707.52	133,446.02	126,602.14	125,424.37	139,148.50	123,688.14	139,755.67	121,321.39	119,303.79	1,538,613.27
581.1	46,742.47	48,340.76	42,379.00	47,433.43	40,219.09	47,332.35	39,737.57	44,054.72	47,090.28	37,253.69	57,564.22	78,126.68	593,258.56
581.2	143,344.18	131,120.69	149,833.78	139,383.14	152,855.97	133,001.20	139,210.17	167,085.82	147,383.02	173,542.18	142,649.91	179,937.35	1,786,327.21
581.3	80,541.68	79,024.39	81,890.69	88,245.03	85,369.18	81,401.39	80,068.13	99,070.41	72,269.67	56,270.49	72,269.67	57,644.28	808,210.37
581.5	50,669.23	49,891.42	63,027.63	48,514.34	51,322.96	42,613.69	36,522.93	74,288.84	32,932.49	40,556.75	37,739.58	31,715.57	559,790.43
581.6	709.35	-	-	311.71	77.40	-	4,209.85	-	682.87	-	-	-	5,971.18
581.7	681.22	-	-	575.78	287.89	-	-	210.49	-	316.75	-	424.87	2,476.10
582	8,841.00	10,779.64	17,155.50	4,580.76	21,143.54	6,572.48	10,016.71	14,328.83	10,710.63	5,880.57	4,785.38	2,994.78	117,575.82
583	1,224.02	1,899.08	6,585.63	3,763.56	7,359.97	8,305.53	11,060.83	3,950.58	9,579.88	8,805.31	7,023.44	4,045.57	73,582.19
588	58,895.29	75,068.51	58,408.31	68,483.98	62,873.75	72,317.78	47,573.53	65,979.91	61,099.01	78,158.03	70,657.43	89,938.34	809,847.85
570	37,013.71	37,876.40	27,068.43	43,056.33	38,875.28	46,848.38	67,172.03	67,733.69	45,827.09	46,149.53	42,033.15	61,091.77	550,748.05
571	25,226.98	10,408.53	28,385.03	27,100.12	34,099.59	25,677.35	38,468.55	23,872.42	16,231.23	17,784.76	39,745.31	21,018.08	311,797.95
573	4,702.23	6,613.58	2,203.02	2,991.77	12,963.35	6,363.04	17,880.25	30,707.64	3,213.25	5,966.28	9,720.33	7,084.78	110,189.52
580	111,697.45	95,127.03	88,663.71	112,658.31	110,728.00	114,036.89	189,870.85	223,591.11	128,654.08	122,440.61	168,118.36	118,887.68	1,580,182.78
581	33,684.76	34,513.79	27,169.34	34,741.20	39,215.92	34,204.97	35,407.73	37,775.52	23,476.35	29,095.90	27,034.82	27,062.95	383,253.16
582	936.73	3,159.35	-	1,905.07	44.89	2,873.00	1,928.34	952.63	-	884.80	-	2,404.84	14,890.45
583	79,492.88	73,577.11	82,848.99	85,432.36	84,049.10	75,708.81	69,215.18	95,131.65	80,879.79	101,981.02	92,178.89	128,301.23	1,048,573.02
586	58,359.57	59,626.85	67,948.83	58,905.30	62,197.68	64,588.88	59,739.51	68,161.89	54,108.15	65,554.33	52,398.41	62,220.30	711,772.48
588	238,072.00	228,769.17	201,814.00	259,609.16	193,500.93	188,428.40	189,900.68	193,200.08	158,857.65	220,551.07	162,011.01	202,524.89	2,433,487.30
590	282.30	488.33	1,114.98	429.03	318.88	243.02	258.89	642.23	168.01	17.81	17.81	72.96	4,087.06
592	936.71	501.29	-	638.08	2,472.20	1,211.49	7.51	342.65	219.44	-	149.17	-	8,623.04
593	13,955.80	11,822.82	22,389.61	15,388.74	33,844.81	30,440.42	75,875.88	22,461.93	17,118.98	8,226.82	31,714.48	12,019.70	295,080.37
598	9,019.79	10,623.35	8,858.02	14,180.16	9,231.69	13,843.74	10,582.81	13,004.98	12,320.42	12,270.02	8,703.58	13,143.12	135,794.47
901	292,902.28	278,917.39	298,209.20	280,830.13	304,827.30	278,449.70	265,533.51	301,431.68	257,158.08	316,654.94	291,818.28	247,550.52	3,380,181.26
902	15,731.83	13,963.85	15,297.38	15,507.42	15,534.82	14,457.32	13,223.85	10,872.83	12,337.63	10,044.07	16,311.30	20,889.63	185,958.63
903	769,408.70	798,729.44	795,291.27	779,375.18	823,486.51	752,540.36	833,368.84	973,868.93	778,014.16	849,172.43	888,474.85	894,303.43	9,883,014.10
905	116.72	108.80	132.97	113.94	25.33	-	-	-	-	-	-	-	495.48
907	40,618.88	48,043.12	48,811.31	47,617.64	52,370.46	48,985.84	47,484.07	54,131.70	43,570.20	82,377.58	58,061.80	58,888.93	613,448.50
908	124,980.16	113,930.48	225,202.81	119,614.32	115,823.41	87,748.18	103,188.42	127,014.41	98,322.60	108,045.44	102,350.02	102,978.11	1,440,076.26
910	22,081.90	21,470.09	20,638.24	23,370.14	27,849.29	24,598.67	22,982.20	22,427.00	24,342.67	61,123.87	23,777.01	30,992.47	325,853.32
920	3,161,115.28	2,876,123.23	3,055,442.50	2,783,990.24	2,962,110.76	2,855,093.22	2,730,780.71	3,122,393.08	2,576,161.34	3,116,727.22	2,675,633.87	2,749,889.78	34,965,440.19
921	521,138.58	351,483.14	410,897.88	447,690.02	393,227.37	391,288.42	434,272.26	589,314.30	442,640.17	416,148.89	572,687.22	617,180.82	5,780,978.15
923	261,844.85	413,043.33	507,913.68	802,032.81	351,658.32	794,493.43	762,168.27	483,288.07	496,103.64	489,671.00	647,462.96	890,574.30	6,982,904.96
925	1,329.20	1,252.45	1,211.63	1,264.48	1,264.48	7,858.45	1,163.00	3,494.35	4,133.04	1,627.01	1,382.59	(7,183.55)	18,998.21
926	1,752,084.68	1,580,923.60	1,718,709.52	1,542,512.04	1,631,518.76	1,577,742.09	1,508,595.06	1,699,971.12	1,657,129.93	1,887,694.44	1,496,909.57	889,945.87	18,345,393.78

2018 VA ARAT
 KU Recipient of Service (Payables)
 LKS billings to KU/ODP by FERC account by month
 Order Granting Approval, Appendix Item 12b
 CASE NO. PUR-2018-00048

Convenience Payments
 FERC Account

	Jan-2018	Feb-2018	Mar-2018	Apr-2018	May-2018	Jun-2018	Jul-2018	Aug-2018	Sep-2018	Oct-2018	Nov-2018	Dec-2018	Total
107	888,380.97	838,200.36	1,397,645.81	1,484,032.34	1,633,417.35	2,487,081.00	2,140,073.32	2,499,111.53	2,013,955.92	1,410,170.32	2,743,069.01	5,145,788.01	\$ 24,676,924.54
108	7,707.42	8,482.15	6,128.95	2,843.48	17,921.22	27,310.11	33,061.58	168,778.89	20,248.22	6,808.65	71,560.81	120,117.88	489,027.34
131	320.00	250.00	314.00	(1,596.32)	682.48	408.00	128.38	127.85	(55,040.66)	(2,518.76)	(14,538.93)	(1,232.38)	(72,699.53)
146	-	-	-	-	-	-	-	-	5.04	-	-	-	-
151	27,301,425.71	28,109,825.25	23,557,876.02	34,545,949.91	32,258,412.00	35,885,063.88	31,820,815.48	36,828,845.30	22,581,779.16	8,093,398.72	21,208,791.82	33,308,698.67	333,385,109.00
163	1,040.59	5,005.50	5,634.72	3,082.43	1,848.13	1,876.50	2,281.12	3,056.48	-	5,587.65	17,782.51	462.84	47,848.28
165	2,480,781.08	1,894,093.18	(165,025.92)	4,888,089.15	(173,894.30)	(173,894.30)	(175,830.82)	(175,830.82)	1,488,118.89	(126,982.80)	(43,460.54)	1,731,288.83	11,225,899.18
182.3	-	65.18	745,318.88	6,585.90	8,937.25	488,595.43	32,542.85	15,708.20	767,883.41	233,658.39	11,284.92	722,938.68	3,031,483.18
183	41,532.27	3,189.58	-	-	-	-	-	88,972.31	289,032.61	189,894.92	32,288.07	(1,539,813.00)	(935,713.26)
184	1,577,848.23	1,302,107.18	1,488,617.24	1,257,883.42	1,533,271.88	1,818,358.80	1,511,877.88	1,451,052.67	1,357,399.00	1,830,829.35	1,588,960.83	1,382,360.83	18,048,572.89
188	-	-	-	-	-	-	-	-	40,000.00	-	-	-	40,000.00
228.3	28,901.04	941,487.97	(230,303.73)	829,908.03	30,321.97	1,102,197.93	30,877.92	30,870.88	1,139,473.59	30,324.00	29,959.48	1,474,659.48	5,328,558.54
232	748,855.88	748,328.95	1,168,193.18	779,833.85	1,108,359.05	837,908.87	768,167.04	831,434.81	744,756.10	940,489.28	1,074,075.48	710,747.07	10,348,017.31
236	(88.02)	(78.24)	-	(63.49)	(40.00)	(45.68)	-	-	-	-	-	-	(305.48)
241	-	(0.05)	-	-	-	-	-	-	-	-	-	-	(0.05)
242	1,100.00	-	1,148,903.80	-	-	-	-	-	-	-	-	-	1,150,003.80
417.1	370.80	-	-	-	-	-	-	-	-	-	-	-	370.80
421	(1,467.00)	(1,303.94)	(562.07)	(905.27)	(804.01)	(780.78)	(302.40)	-	(150.00)	(83.20)	-	(139.20)	(6,577.88)
426.1	-	-	120.08	138.87	2,889.48	94.37	710.40	122.61	-	101.88	4,811.58	-	8,788.93
426.4	299.82	863.83	487.81	207.49	192.37	184.82	5,873.81	188.76	8,887.15	184.35	29,590.00	1,882.10	48,852.81
426.5	-	81.38	-	322.58	-	-	590.89	364.00	-	183.83	4,080.53	824,203.58	829,836.35
456	-	-	-	-	-	-	524.70	-	338.38	-	-	-	881.08
500	10,787.72	9,250.50	9,824.45	15,878.22	30,827.25	11,781.69	7,914.28	13,381.41	18,291.28	23,255.15	31,398.58	28,423.27	210,884.78
501	9,854.11	3,467.85	3,872.87	3,170.73	2,390.20	2,135.42	6,851.37	3,103.39	3,007.82	3,783.05	3,987.37	2,412.65	44,859.52
502	311.94	-	291.14	480.85	281.12	305.22	684.85	-	628.62	654.01	-	-	6,940.30
505	-	-	-	-	-	-	-	-	-	1,855.68	-	-	6,000.20
509	9,299.89	17,853.81	11,457.02	7,760.04	27,110.42	14,924.09	33,106.10	18,789.79	17,401.08	9,302.30	28,894.85	40,731.35	234,707.82
510	2,055.00	2,044.80	2,044.80	1,325.79	2,736.22	481.28	50,812.68	12,828.40	381.41	21,208.18	3,902.10	70,823.78	188,588.50
511	7,204.88	6,014.73	5,873.09	4,607.98	7,757.88	3,153.87	5,848.80	5,940.87	9,088.28	7,028.47	10,181.43	-	83,098.12
512	245.00	543.10	1,100.43	1,024.00	788.45	194.45	-	-	25,000.00	-	-	-	38,650.88
513	353.87	113.79	1,135.77	148.21	(692.58)	1,162.80	-	741.32	589.50	1,243.54	494.80	-	5,290.94
514	1,048.49	8,288.81	10,837.69	1,248.99	2,350.78	2,362.13	2,085.00	4,873.88	280.00	8,306.55	3,334.35	-	42,607.45
538	-	-	-	-	-	-	-	-	-	1,430.83	-	-	11,483.60
548	-	-	-	-	-	-	-	-	-	3,651.17	-	-	3,651.17
553	2,087.27	85.16	-	-	-	-	-	-	-	-	48.85	-	2,218.08
554	281.60	-	-	-	-	-	-	-	-	-	-	-	281.60
556	34.88	17.61	34.88	-	-	34.30	-	34.30	-	-	82.24	-	238.21
590	229.02	186.54	22,858.83	407.48	1,837.82	748.39	3,009.10	1,891.84	2,842.84	2,704.87	1,894.44	44.54	38,147.71
581.1	1,884.54	1,980.00	2,109.02	2,038.82	2,278.07	11,775.02	11,498.08	11,650.81	11,810.10	3,871.94	2,572.01	2,244.80	85,980.20
581.2	3,334.10	3,334.18	3,334.18	3,334.18	3,334.18	3,334.18	3,334.18	3,334.18	3,334.18	3,334.18	3,334.18	3,334.18	40,009.92
581.5	-	37.53	3,719.85	-	-	-	-	54.93	5,588.16	18,209.80	-	-	25,588.37
581.8	-	-	-	-	-	-	-	1,822.40	-	-	-	-	1,822.40
582	880.00	-	-	-	-	-	35.28	-	-	-	778.97	-	1,474.25
583	4,750.00	-	-	-	-	-	-	-	-	-	-	-	28,188.00
588	152,281.05	163,144.75	144,225.09	234,078.81	155,801.57	184,782.19	153,692.34	147,357.52	75,553.38	148,978.82	170,750.39	168,241.12	1,886,897.11
570	339.29	1,310.69	1,462.41	(501.73)	1,376.10	4,438.35	2,418.15	2,128.99	1,243.57	2,883.00	892.48	916.83	18,008.94
571	-	-	-	-	188.89	59.66	97,823.63	-	-	-	-	-	2,123.74
573	5,312.54	7,889.99	13,454.45	23,348.91	7,604.85	39,252.51	13,058.09	14,883.11	10,038.82	9,830.57	13,558.79	25,777.37	184,189.10
580	677.44	2,922.08	1,382.79	733.59	5,988.36	1,378.03	4,852.34	8,328.71	1,117.58	5,038.05	10,767.18	16,728.87	58,918.02
582	217.88	80.00	120.00	100.24	1,217.21	122.91	122.91	213.29	58.35	-	162.73	-	2,320.59
583	303.15	75.33	75.33	280.04	1,403.76	176.18	220.50	884.23	3,308.56	74.06	98.91	162.88	7,150.81
588	60,338.39	18,730.99	17,853.23	25,188.33	21,807.08	33,387.47	25,673.78	29,983.58	25,083.92	27,278.81	23,483.08	18,630.91	328,108.53
590	-	-	-	157.40	-	150.71	-	-	-	-	-	-	308.11
592	217.88	-	-	1,182.84	122.62	-	-	-	150.00	-	-	-	2,430.38
593	32.02	-	24.97	138.38	648.45	-	-	-	241.45	-	-	-	24,850.75
598	10,575.30	11,035.10	18,729.20	11,881.69	13,314.68	24,371.83	11,613.88	13,631.35	20,174.35	21,258.23	15,383.14	20,855.69	193,424.21
901	114.88	210.12	184.63	634.55	85.81	84.04	2,800.00	-	17.38	-	-	41.40	4,152.79
902	-	24.58	-	-	-	-	-	-	-	-	109.74	-	134.32
903	258,589.51	248,528.43	315,840.53	280,870.18	289,851.87	282,875.79	290,385.65	302,480.02	324,419.81	248,508.33	334,728.31	388,827.40	3,584,871.81
907	-	85.53	-	-	-	-	-	-	-	-	-	-	85.53
908	1,810,838.85	884,825.39	785,677.84	1,201,878.38	1,188,811.08	829,143.00	1,216,583.27	858,035.60	905,587.28	707,889.71	1,128,273.03	1,108,583.94	11,863,948.48
909	8,857.45	42,869.85	35,273.68	47,881.08	40,532.56	29,529.45	10,904.69	44,823.47	9,912.26	44,816.83	116,256.95	168,838.05	508,075.23
910	111,201.80	21,497.39	120,873.84	78,103.94	70,074.32	79,870.00	112,581.27	87,171.83	104,737.94	71,307.88	103,713.26	71,814.15	1,033,547.00
913	55,437.80	103,832.85	96,002.41	70,882.67	53,271.00	76,083.24	18,083.31	18,898.84	98,813.68	188,398.66	98,892.84	88,238.11	952,088.21
920	-	-	-	-	-	-	-	-	-	-	-	-	71,707.69
921	169,724.01	191,089.63	188,785.84	281,798.15	233,824.38	280,330.70	273,282.58	209,812.61	141,221.89	218,889.79	138,289.90	839,864.11	3,102,851.22
923	150,439.23	138,028.84	182,850.16	182,011.18	157,599.77	140,905.01	158,882.88	180,873.77	158,151.00	194,441.11	389,453.63	388,895.77	2,378,810.45
924	74,527.34	34,673.13	28,090.00	121,375.00	-	-	34,840.00	(492.00)	219.60	-	-	-	328,483.07
925	43,859.83	48,875.00	(8.80)	47,587.60	-	-	46,875.00	30,828.20	-	47,012.43	-	(2,285.70)	280,843.68
928	-	11,478.38	7,282.38	84,997.42	-	1,223.80	42.20	-	-	-	-	-	84,722.16
930.1	-	-	30,509.27	-	-	-	-	-	-	-	-	-	30,509.27
930.2	183,848.74	410,806.83	223,730.51	172,402.55	187,451.59	188,048.11	178,808.90	187,504.72	188,523.30	175,884.51	234,474.00	408,788.78	2,689,858.24
931	-	2,400.00	-	-	-	-	-	-	-	-	-	-	2,400.00
935	35,039.23	23,716.15	28,700.14	44,330.59	39,001.57	61,408.97	22,608.05	41,220.23	25,891.88	80,882.27	32,009.97	44,813.54	480,830.57
Total Convenience Payments	\$ 38,032,823.28	\$ 33,836,462.09	\$ 31,370,868.80	\$ 48,477,866.35	\$ 38,829,528.25	\$ 44,403,202.67	\$ 38,973,182.79	\$ 44,074,933.72	\$ 32,813,858.38	\$ 14,793,742.88	\$ 29,578,585.80	\$ 47,848,885.49	\$ 438,032,330.38

2018 VA ARAT
 KU Recipient of Service (Payable)
 LKS billings to KU/ODP by FERC account by month
 Order Granting Approval, Appendix Item 12b
 CASE NO. PUR-2018-00049

Other Excluded Non-Service Transactions
 FERC Account

	Jan-2018	Feb-2018	Mar-2018	Apr-2018	May-2018	Jun-2018	Jul-2018	Aug-2018	Sep-2018	Oct-2018	Nov-2018	Dec-2018	Total
107	\$ (1,726,209.34)	\$ (17,029.00)	\$ (93,188.54)	\$ 49,639.28	\$ (170,430.40)	\$ 585,681.88	\$ 197,255.75	\$ (380,236.53)	\$ 41,881.17	\$ 408,840.87	\$ 742,596.16	\$ 45,162.84	\$ (816,204.84)
108	2,876.24	(2,875.24)	1,888.40	41,943.18	(2,873.32)	(5,217.51)	(28,631.06)	0.24	-	3,885.62	(3,027.84)	-	56,238.43
143	1,058.02	27,713.75	21,220.81	7,810.43	-	-	-	-	-	-	-	-	57,803.01
163	1,295.78	(1,295.78)	1,021.16	(1,021.16)	-	-	-	-	-	-	-	-	88,523.48
165	(180,173.87)	178,650.20	-	-	-	-	-	-	-	-	-	-	178,629.58
182.3	-	(65.19)	3,734.12	(3,734.12)	3,462.43	8,340.59	(11,803.02)	117,072.02	47,382.31	(157,042.80)	29,748.31	34,708.17	71,800.72
183	(44,978.32)	248.49	-	-	-	-	69,972.31	233,905.30	(142,883.19)	(129,825.90)	(30,988.52)	-	(44,731.83)
184	223,594.99	102,188.75	167,185.61	(203,198.48)	121,619.88	51,562.14	(285,245.11)	59,842.80	31,235.58	(162,502.23)	94,824.44	(69,197.75)	131,917.19
188	(54,050.21)	61,068.47	(80,838.47)	(0.50)	24,188.28	3,823.87	(19,628.12)	(8,787.53)	117,197.30	(109,438.04)	(7,189.79)	512.26	(52,871.08)
232	18,100.78	(19,934.75)	(3,478.00)	114.98	4,873.23	5,609.52	11,985.02	300.00	-	(11,397.93)	(11,397.93)	(16,488.37)	914.41
236	(125,388.28)	(69,000.41)	(51,474.48)	-	-	(57,251.35)	(108,528.51)	(62,048.20)	(99,757.03)	(98,987.91)	(159,864.19)	(76,227.47)	(847,268.83)
408.1	2,750.00	2,750.00	2,750.00	2,750.00	2,700.00	2,700.00	2,700.00	2,700.00	2,700.00	2,700.00	1,003.84	-	28,203.64
428.4	-	1,374.45	-	-	-	1,099.47	794.75	64.90	1,592.00	1,374.45	(687.22)	1,273.25	8,628.05
428.5	(1,908.42)	(80.10)	4,375.00	(4,375.00)	-	-	-	888.59	10,058.25	(3,504.14)	1,441.60	1,933.14	8,970.92
500	(71,277.44)	49,978.94	(3,368.96)	(4,921.24)	(2,228.55)	(11,675.67)	(278.91)	11,156.04	(4,837.48)	370.48	5,782.08	20,214.32	(11,171.77)
501	(7,512.23)	7,030.73	(512.28)	(2,424.92)	1,532.93	1,044.93	(4,004.73)	3,543.93	(3,119.26)	4,742.34	(3,203.69)	(2,321.50)	(5,203.74)
505	-	-	-	-	-	-	-	-	-	6,000.20	-	2,870.20	8,870.40
506	1,499.75	48,159.08	(32,443.34)	61,268.87	(42,792.00)	9,839.05	(5,408.90)	47,302.48	(59,725.24)	25,579.13	(17,798.02)	(1,000.33)	34,591.51
510	(3,936.40)	23,512.59	376,331.51	(409,822.04)	(29,790.72)	178,852.85	(171,418.42)	(5,848.51)	29,285.54	47,280.98	179,906.05	(145,870.30)	67,485.17
511	(615.02)	3,350.81	(1,468.43)	(2,445.38)	469.17	326.23	423.19	539.55	(404.58)	(818.68)	481.12	(11,463.60)	4,703.10
538	-	-	-	-	-	-	-	-	-	11,463.60	-	-	(11,463.60)
554	(281.60)	-	-	-	-	-	-	-	-	-	-	-	(281.60)
558	-	-	-	-	-	-	15.00	-	-	-	-	-	15.00
560	-	-	-	-	-	-	11.70	(21.19)	-	74.75	-	1,757.57	1,822.83
561.1	-	-	-	494.25	-	-	-	-	-	-	-	-	494.25
561.5	-	3,120.00	(3,120.00)	-	-	-	38,725.00	(38,725.00)	-	-	-	-	14.68
568	181,036.70	3,126.00	3,415.00	(798.85)	6,421.35	172,295.20	(12,088.70)	(875.54)	316,113.34	45,938.81	27,432.82	10,318.50	752,332.63
570	-	-	-	-	-	98,050.00	(98,050.00)	865.38	(703.51)	-	-	-	161.85
571	-	-	-	-	-	-	-	-	-	-	-	-	-
573	-	-	2,014.65	(1,931.00)	-	-	-	-	-	-	-	-	83.55
580	348.54	19.84	341.52	4,588.58	(3,157.50)	(728.75)	54,109.73	(53,002.14)	1,516.53	(908.97)	10,870.00	40,680.37	54,658.05
583	-	-	1,588.39	(1,588.39)	-	-	-	-	-	-	-	-	-
588	-	-	1,588.39	(1,588.39)	-	-	-	-	-	-	-	-	-
588	(8,888.28)	(2,807.60)	(4,987.00)	237.00	3,488.30	(5,570.88)	6,065.75	780.27	1,780.31	2,000.80	5,684.48	14,085.62	13,918.74
592	-	-	1,588.40	(1,588.40)	-	-	-	-	-	-	-	-	-
593	-	-	-	-	-	-	1,430.00	-	-	-	-	-	(589.00)
901	-	-	12.18	1,120.00	5,600.00	(6,708.00)	352.00	2,702.56	(2,702.56)	-	1,120.00	-	7,189.52
903	(38,454.68)	3,884.00	54,481.08	(28,098.16)	53,700.16	81,851.30	(38,734.78)	(41,898.27)	(13,180.07)	62,278.22	(68,041.30)	(59,584.82)	(30,715.32)
907	-	-	-	-	3.84	-	-	-	-	-	-	-	3.84
908	-	-	-	-	-	-	-	-	-	-	-	5,746.75	5,746.75
909	-	41.68	(41.68)	-	-	-	10,800.00	(10,800.00)	4,231.88	(2,528.28)	(1,703.70)	3,883.70	3,883.70
910	(5,480.00)	51,095.90	(57,328.90)	-	-	7,280.00	1,120.00	(1,680.00)	9,180.00	590.00	(7,500.00)	27,927.54	25,168.54
913	-	-	-	-	-	-	-	3,584.00	2,072.00	(4,831.12)	52,872.62	(25,887.88)	27,829.84
920	(5,338.51)	7,402.82	-	35,490.33	(7,429.38)	(28,060.95)	32,393.03	(32,393.03)	23,576.23	16,479.81	(40,058.14)	(2,880.00)	(813.80)
921	45,587.03	(17,732.57)	83,740.54	(80,117.17)	51,880.00	28,044.26	(72,218.21)	(81,321.73)	72,528.60	47,824.29	(53,878.03)	12,055.22	39,276.22
923	19,486.15	119,944.80	262,315.88	(474,575.82)	481,383.22	60,828.40	(425,497.19)	112,803.02	(37,432.07)	5,817.27	92,119.18	(165,147.70)	81,803.12
924	(53,823.95)	-	-	-	-	-	-	-	-	-	-	-	(53,823.95)
925	(43,959.93)	-	-	-	-	-	-	10.00	-	-	-	-	(43,949.93)
926	(1,758.72)	-	-	-	-	-	-	-	-	650.00	(484.08)	70,708.65	69,135.85
928	948.39	(4,104.02)	57,478.60	(64,780.06)	1,223.80	53,870.40	(55,094.20)	-	-	-	-	-	(10,828.00)
930.2	169,883.38	(169,883.38)	-	-	-	-	-	-	-	-	1,711.00	23,053.50	24,764.50
931	(1,857.80)	18,688.50	(18,688.50)	66,688.40	(63,380.80)	(1,430.00)	13,088.40	(13,088.40)	4,789.80	45,032.50	145,273.24	(194,685.14)	430.40
935	(152.08)	162.83	9,158.04	(4,183.85)	(3,251.31)	761.40	19.24	7,118.02	13,080.13	(20,802.65)	312.41	2,508.72	4,948.72
Total Other Excluded Non-Service Transactions	\$ (1,705,823.32)	\$ 404,501.22	\$ 707,244.49	\$ (999,954.93)	\$ 440,130.48	\$ 1,235,220.57	\$ (694,388.99)	\$ (117,297.31)	\$ 390,882.48	\$ 68,354.70	\$ 1,013,417.02	\$ (102,900.85)	\$ 437,368.84
Grand Total	\$ 80,052,388.72	\$ 47,183,762.60	\$ 46,033,699.86	\$ 59,497,384.81	\$ 53,989,266.89	\$ 58,681,640.75	\$ 51,405,517.10	\$ 59,370,717.33	\$ 45,826,815.24	\$ 29,944,681.84	\$ 45,041,788.88	\$ 81,815,136.70	\$ 608,442,700.19

2018 VA ARAT
 KU Recipient of Service (Payables)
 Difference in FERC Account for LKS billings between KU/ODP's books and LKS' books
 Order Granting Approval, Appendix Item 12c
 CASE NO. PUR-2018-00049

12c) An annual schedule that reconciles any differences in the FERC account distribution of LKS billings as they are recorded on KU/ODP's books and LKS's books;

RESPONSE:

Differences in FERC account distributions of LKS billings

Services FERC Account	As recorded on KU/ODP's books	FERC Account	As recorded on LKS' books
		408.1	741,130.55
		412	22,579,688.26
		925	1,042.74
		926	2,732,230.90
107	26,054,092.45	Total	26,054,092.45
		408.1	125,742.82
		412	2,250,787.54
		925	157.88
		926	472,065.52
108	2,848,753.76	Total	2,848,753.76
142	911.23	412	911.23
		408.1	62,590.56
		412	925,332.35
		925	91.58
		926	249,675.01
163	1,237,689.50	Total	1,237,689.50
165	10,508,902.64	412	10,508,902.64
		408.1	6,707.07
		412	107,476.24
		925	20.26
		926	25,756.85
183	139,960.42	Total	139,960.42
		408.1	561,236.21
		412	9,397,239.48
		925	886.54
		926	2,326,225.42
184	12,285,587.65	Total	12,285,587.65
186	277,633.17	412	277,633.17
232	(11,664.70)	412	(11,664.70)
Total Differences in Services	53,341,866.12		53,341,866.12

¹ The report excludes convenience payments, of which the largest component is fuel, and other excluded non-service transactions. These are considered pass-through items for the service company whereby an intercompany receivable is recorded with a corresponding credit to cash, and for which no revenue or cost of sales is recorded on its books.

Reconciliation of KU 2018 Form 1 and Form 60 to VA ARAT VSCC-2 (Services Only View)

	Form 1			Other Affiliates Below Form 1		Total
	Louisville Gas and Electric Company	LG&E and KU Services Company (LKS)	PPL Services Corporation	LG&E and KU Energy LLC (LKE)	PPL EU Services Corporation	
Non-Power Goods or Services Provided by Affiliate:						
Capital Expenditures	3,248,692.00	28,902,846.00	-	-	-	32,151,538.00
Direct-Indirect Labor	20,854,712.00	103,494,112.00	-	-	-	124,348,824.00
Equipment and Facilities	529,283.00	16,169,057.00	205,155.00	-	-	16,903,495.00
Materials and Fuels	12,611.00	132,720.00	-	-	-	145,331.00
Office and Administrative Services	62,133.00	6,139,516.00	-	-	-	6,201,649.00
Outside Services	224,485.00	14,134,730.00	2,569,342.00	-	-	16,928,557.00
Transmission	2,873,973.00	-	-	-	-	2,873,973.00
Total Filed on Form 1, Page 429	\$ 27,805,889.00	\$ 168,972,981.00	\$ 2,774,497.00	\$ -	\$ -	\$ 199,553,367.00
Reconciling Items from Form 1 to VA ARAT (Services Only View):						
Affiliate amount below reporting threshold	-	-	-	1,037.32	1,184.40	2,221.72
Total	\$ 27,805,889.00	\$ 168,972,981.00	\$ 2,774,497.00	\$ 1,037.32	\$ 1,184.40	\$ 199,555,588.72
VA ARAT (VSCC-2) Services Only View	27,805,889.11	168,972,980.96	2,774,497.41	1,037.32	1,184.40	199,555,589.20
Difference (rounding)	(0.11)	0.04	(0.41)	-	-	(0.48)
Reconciling Items to Form 60:						
Revenues understated on Form 60 (IT labor correction - waived due to materiality)		5,241.56				
Total		\$ 168,978,222.56				
Form 60, Page 307 Billings From LKS to KU		168,978,223.00				
Difference (rounding)		(0.44)				

Reconciliation of KU 2018 Form 1 to VA ARAT VSCC-1 (Services Only View)

	Form 1		Other Affiliates Below Form 1 Reporting Threshold			Total
	Louisville Gas and Electric Company	LG&E and KU Services Company (LKS)	LG&E and KU Energy LLC (LKE)	PPL Services Corporation	PPL EU Services Corporation	
Non-Power Goods or Services Provided for Affiliate:						
Capital Expenditures	4,455,666.00	3,623.00	-	-	-	4,459,289.00
Direct-Indirect Labor	1,066,254.00	738,187.00	-	-	-	1,804,441.00
Equipment and Facilities	1,464,756.00	5,611.00	-	-	-	1,470,367.00
Materials and Fuels	34,751.00	2,082.00	-	-	-	36,833.00
Office and Administrative Services	43,157.00	42,393.00	-	-	-	85,550.00
Outside Services	83,003.00	49,838.00	-	-	-	132,841.00
Transmission	1,299,817.00	-	-	-	-	1,299,817.00
Total Filed on Form 1, Page 429	\$ 8,447,404.00	\$ 841,734.00	\$ -	\$ -	\$ -	\$ 9,289,138.00
Reconciling Items from Form 1 to VA ARAT (Services Only View):						
Affiliate amount below reporting threshold	-	-	171,342.33	62,817.94	111,185.36	345,345.63
Total	\$ 8,447,404.00	\$ 841,734.00	\$ 171,342.33	\$ 62,817.94	\$ 111,185.36	\$ 9,634,483.63
VA ARAT (VSCC-1) Services Only View	8,447,404.24	841,733.80	171,342.33	62,817.94	111,185.36	9,634,483.67
Difference (rounding)	(0.24)	0.20	-	-	-	(0.04)

Name of Respondent Kentucky Utilities Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Ds, Yr) 11	Year/Period of Report End of 2018/Q4
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TRANSACTIONS WITH ASSOCIATED (AFFILIATED) COMPANIES

1. Report below the information called for concerning all non-power goods or services received from or provided to associated (affiliated) companies.
2. The reporting threshold for reporting purposes is \$250,000. The threshold applies to the annual amount billed to the respondent or billed to an associated/affiliated company for non-power goods and services. The good or service must be specific in nature. Respondents should not attempt to include or aggregate amounts in a nonspecific category such as "general".
3. Where amounts billed to or received from the associated (affiliated) company are based on an allocation process, explain in a footnote.

Line No.	Description of the Non-Power Good or Service (a)	Name of Associated/Affiliated Company (b)	Amount Charged or Credited (c)	Amount Charged or Credited (d)
1	Non-power Goods or Services Provided by Affiliated			
2	Capital Expenditures	Louisville Gas and Electric Company	see footnote	3,248,692
3	Direct-Indirect Labor	Louisville Gas and Electric Company	see footnote	20,854,712
4	Equipment and Facilities	Louisville Gas and Electric Company	see footnote	528,283
5	Materials and Fuels	Louisville Gas and Electric Company	see footnote	12,611
6	Office and Administrative Services	Louisville Gas and Electric Company	see footnote	62,133
7	Outside Services	Louisville Gas and Electric Company	see footnote	224,485
8	Transmission	Louisville Gas and Electric Company	see footnote	2,673,973
9				
10	Capital Expenditures	LG&E and KU Services Company	see footnote	28,902,846
11	Direct-Indirect Labor	LG&E and KU Services Company	see footnote	103,494,112
12	Equipment and Facilities	LG&E and KU Services Company	see footnote	16,169,057
13	Materials	LG&E and KU Services Company	see footnote	132,720
14	Office and Administrative Services	LG&E and KU Services Company	see footnote	6,139,515
15	Outside Services	LG&E and KU Services Company	see footnote	14,134,730
16				
17	Equipment and Facilities	PPL Services Corporation	see footnote	205,155
18	Outside Services	PPL Services Corporation	see footnote	2,569,342
19				
20	Non-power Goods or Services Provided for Affiliate			
21	Capital Expenditures	Louisville Gas and Electric Company	see footnote	4,455,666
22	Direct-Indirect Labor	Louisville Gas and Electric Company	see footnote	1,056,284
23	Equipment and Facilities	Louisville Gas and Electric Company	see footnote	1,464,756
24	Materials and Fuels	Louisville Gas and Electric Company	see footnote	34,751
25	Office and Administrative Services	Louisville Gas and Electric Company	see footnote	43,157
26	Outside Services	Louisville Gas and Electric Company	see footnote	83,003
27	Transmission	Louisville Gas and Electric Company	see footnote	1,289,817
28				
29	Capital Expenditures	LG&E and KU Services Company	see footnote	3,623
30	Direct-Indirect Labor	LG&E and KU Services Company	see footnote	738,187
31	Equipment and Facilities	LG&E and KU Services Company	see footnote	5,611
32	Materials	LG&E and KU Services Company	see footnote	2,082
33	Office and Administrative Services	LG&E and KU Services Company	see footnote	42,393
34	Outside Services	LG&E and KU Services Company	see footnote	49,838
35				
36				
37				
38	See footnote for allocation process			
39				
40				
41				
42				

THIS FILING IS

Item 1: An Initial (Original) Submission OR Resubmission No. _____

Form 60 Approved
OMB No. 1902-0215
Expires 05/31/2019



FERC FINANCIAL REPORT

FERC FORM No. 60: Annual Report of Centralized Service Companies

This report is mandatory under the Public Utility Holding Company Act of 2005, Section 1270, Section 309 of the Federal Power Act and 18 C.F.R. § 366.23. Failure to report may result in criminal fines, civil penalties, and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

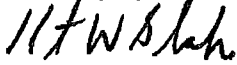
Exact Legal Name of Respondent (Company)

LG&E and KU Services Company

Year of Report

Dec 31, 2018

**FERC FORM NO. 60
ANNUAL REPORT FOR SERVICE COMPANIES**

IDENTIFICATION		
01 Exact Legal Name of Respondent LG&E and KU Services Company		02 Year of Report Dec 31, 2018
03 Previous Name (If name changed during the year)		04 Date of Name Change //
05 Address of Principal Office at End of Year (Street, City, State, Zip Code) 220 West Main Street, Louisville, KY 40202		06 Name of Contact Person Vicki Romanko
07 Title of Contact Person Manager Corporate Accounting		08 Address of Contact Person 220 West Main Street, Louisville, KY 40202
09 Telephone Number of Contact Person (502) 627-4966		10 E-mail Address of Contact Person Vicki.Romanko@ge-ku.com
11 This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		12 Resubmission Date (Month, Day, Year) //
13 Date of Incorporation 06/02/2000	14 If Not Incorporated, Date of Organization //	
15 State or Sovereign Power Under Which Incorporated or Organized KENTUCKY		
16 Name of Principal Holding Company Under Which Reporting Company is Organized: PPL Corporation		
CORPORATE OFFICER CERTIFICATION		
The undersigned officer certifies that: I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts.		
17 Name of Signing Officer Kent W. Blake	19 Signature of Signing Officer 	20 Date Signed (Month, Day, Year) 04/29/2019
18 Title of Signing Officer Chief Financial Officer	Kent W. Blake	

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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List of Schedules and Accounts

1. Enter in Column (c) the terms "None" or "Not Applicable" as appropriate, where no information or amounts have been reported for certain pages.

Line No.	Description (a)	Page Reference (b)	Remarks (c)
1	Schedule I - Comparative Balance Sheet	101-102	
2	Schedule II - Service Company Property	103	
3	Schedule III - Accumulated Provision for Depreciation and Amortization of Service Company Property	104	
4	Schedule IV - Investments	105	
5	Schedule V - Accounts Receivable from Associate Companies	106	
6	Schedule VI - Fuel Stock Expenses Undistributed	107	None
7	Schedule VII - Stores Expense Undistributed	108	None
8	Schedule VIII - Miscellaneous Current and Accrued Assets	109	None
9	Schedule IX - Miscellaneous Deferred Debits	110	None
10	Schedule X - Research, Development, or Demonstration Expenditures	111	None
11	Schedule XI - Proprietary Capital	201	
12	Schedule XII - Long-Term Debt	202	None
13	Schedule XIII - Current and Accrued Liabilities	203	
14	Schedule XIV - Notes to Financial Statements	204	
15	Schedule XV - Comparative Income Statement	301-302	
16	Schedule XVI - Analysis of Charges for Service - Associate and Nonassociate Companies	303-306	
17	Schedule XVII - Analysis of Billing - Associate Companies (Account 457)	307	
18	Schedule XVIII - Analysis of Billing - Non-Associate Companies (Account 458)	308	None
21	Schedule XIX - Miscellaneous General Expenses - Account 930.2	307	None
23	Schedule XX - Organization Chart	401	
24	Schedule XXI - Methods of Allocation	402	

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule I - Comparative Balance Sheet

1. Give balance sheet of the Company as of December 31 of the current and prior year.

Line No.	Account Number (a)	Description (b)	Reference Page No. (c)	As of Dec 31 Current (d)	As of Dec 31 Prior (e)
1		Service Company Property			
2	101	Service Company Property	103	14,073,775	13,670,282
3	101.1	Property Under Capital Leases	103		
4	106	Completed Construction Not Classified			
5	107	Construction Work In Progress	103	648,372	954,571
6		Total Property (Total Of Lines 2-5)		14,722,147	14,624,853
7	108	Less: Accumulated Provision for Depreciation of Service Company Property	104	4,807,519	4,140,437
8	111	Less: Accumulated Provision for Amortization of Service Company Property			
9		Net Service Company Property (Total of Lines 6-8)		9,914,628	10,484,416
10		Investments			
11	123	Investment In Associate Companies	105		76,400,000
12	124	Other Investments	105		
13	128	Other Special Funds	105	84,845	
14		Total Investments (Total of Lines 11-13)		84,845	76,400,000
15		Current And Accrued Assets			
16	131	Cash			
17	134	Other Special Deposits			
18	135	Working Funds			
19	136	Temporary Cash Investments			
20	141	Notes Receivable			
21	142	Customer Accounts Receivable			
22	143	Accounts Receivable		87,994	85,086
23	144	Less: Accumulated Provision for Uncollectible Accounts			
24	146	Accounts Receivable From Associate Companies	106	240,928,250	154,551,679
25	152	Fuel Stock Expenses Undistributed	107		
26	154	Materials And Supplies			
27	163	Stores Expense Undistributed	108		
28	165	Prepayments		62,360	79,218
29	171	Interest And Dividends Receivable			
30	172	Rents Receivable			
31	173	Accrued Revenues			
32	174	Miscellaneous Current and Accrued Assets			
33	176	Derivative Instrument Assets	109		
34	176	Derivative Instrument Assets - Hedges			
35		Total Current and Accrued Assets (Total of Lines 16-34)		241,078,604	154,715,983
36		Deferred Debits			
37	181	Unamortized Debt Expense			
38	182.3	Other Regulatory Assets			
39	183	Preliminary Survey And Investigation Charges			
40	184	Clearing Accounts		157	
41	185	Temporary Facilities			
42	186	Miscellaneous Deferred Debits			
43	188	Research, Development, or Demonstration Expenditures	110		
44	189	Unamortized loss on reacquired debt	111		
45	190	Accumulated Deferred Income Taxes		75,919,477	87,753,270
46		Total Deferred Debits (Total of Lines 37-45)		75,919,634	87,753,270
47		TOTAL ASSETS AND OTHER DEBITS (TOTAL OF LINES 9, 14, 35 and 46)		326,997,711	329,353,669

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule I - Comparative Balance Sheet (continued)

Line No.	Account Number (a)	Description (b)	Reference Page No. (c)	As of Dec 31 Current (d)	As of Dec 31 Prior (e)
48		Proprietary Capital			
49	201	Common Stock Issued	201	100	100
50	204	Preferred Stock Issued	201		
51	211	Miscellaneous Paid-In-Capital	201	100,000,900	100,000,900
52	215	Appropriated Retained Earnings	201		
53	216	Unappropriated Retained Earnings	201	(9,344,260)	(32,545,952)
54	219	Accumulated Other Comprehensive Income	201	(129,482,601)	(125,914,252)
55		Total Proprietary Capital (Total of Lines 49-54)		(38,825,861)	(58,459,204)
56		Long-Term Debt			
57	223	Advances From Associate Companies	202		
58	224	Other Long-Term Debt	202		
59	225	Unamortized Premium on Long-Term Debt			
60	226	Less: Unamortized Discount on Long-Term Debt-Debit			
61		Total Long-Term Debt (Total of Lines 57-60)			
62		Other Non-current Liabilities			
63	227	Obligations Under Capital Leases-Non-current			
64	228.2	Accumulated Provision for Injuries and Damages			
65	228.3	Accumulated Provision For Pensions and Benefits		270,588,112	287,801,694
66	230	Asset Retirement Obligations			
67		Total Other Non-current Liabilities (Total of Lines 63-66)		270,588,112	287,801,694
68		Current and Accrued Liabilities			
69	231	Notes Payable			
70	232	Accounts Payable		48,686,445	51,270,280
71	233	Notes Payable to Associate Companies	203		
72	234	Accounts Payable to Associate Companies	203	3,247,595	2,754,825
73	236	Taxes Accrued		2,087,948	2,816,362
74	237	Interest Accrued			
75	241	Tax Collections Payable		398,082	289,691
76	242	Miscellaneous Current and Accrued Liabilities	203	24,176,495	22,196,049
77	243	Obligations Under Capital Leases - Current			
78	244	Derivative Instrument Liabilities			
79	245	Derivative Instrument Liabilities - Hedges			
80		Total Current and Accrued Liabilities (Total of Lines 69-79)		78,596,565	79,327,207
81		Deferred Credits			
82	253	Other Deferred Credits		16,715,431	20,531,642
83	254	Other Regulatory Liabilities			
84	255	Accumulated Deferred Investment Tax Credits			
85	257	Unamortized Gain on Reacquired Debt			
86	282	Accumulated deferred income taxes-Other property		(76,536)	152,330
87	283	Accumulated deferred income taxes-Other			
88		Total Deferred Credits (Total of Lines 82-87)		16,638,895	20,683,972
89		TOTAL LIABILITIES AND PROPRIETARY CAPITAL (TOTAL OF LINES 55, 61, 67, 80, AND 88)		326,997,711	329,353,669

Name of Respondent	This Report is:	Resubmission Date	Year of Report
LG&E and KU Services Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2018
FOOTNOTE DATA			

Schedule Page: 101 Line No.: 11 Column: e

\$76,400,000 is notes receivable from LKS' parent, LKE. This is recorded in Investment in Associate Companies (123).

Schedule Page: 101 Line No.: 24 Column: d

The balance includes \$64,000,000 of principal and \$303,324 of accrued interest on a note receivable from LKS' parent, LKE. Interest income on this note is retained by LKS and not allocated to the companies it serves.

Schedule Page: 101 Line No.: 24 Column: e

\$378,566 of interest income on notes receivable from LKS' parent, LKE, the amount was reported in the line for Accounts Receivable From Associate Companies (146). Interest income on this note is retained by LKS and not allocated to the companies it serves.

Schedule Page: 101 Line No.: 86 Column: d

Debit balance is due to greater tax basis versus book basis related to fixed assets, as accumulated book depreciation exceeds accumulated tax depreciation.

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule II - Service Company Property

1. Provide an explanation of Other Changes recorded in Column (f) considered material in a footnote.
2. Describe each construction work in progress on lines 18 through 30 in Column (b).

Line No.	Acct # (a)	Title of Account (b)	Balance at Beginning of Year (c)	Additions (d)	Retirements or Sales (e)	Other Changes (f)	Balance at End of Year (g)
1	301	Organization					
2	303	Miscellaneous Intangible Plant	234,242	(45)			234,197
3	306	Leasehold Improvements					
4	389	Land and Land Rights					
5	390	Structures and Improvements	7,579,359	1,576,790			9,156,149
6	391	Office Furniture and Equipment	5,729,968	70,259	1,224,376		4,575,851
7	392	Transportation Equipment					
8	393	Stores equipment					
9	394	Tools, Shop and Garage Equipment					
10	395	Laboratory Equipment					
11	396	Power Operated Equipment					
12	397	Communications Equipment	126,713	(19,135)			107,578
13	398	Miscellaneous Equipment					
14	399	Other Tangible Property					
15	399.1	Asset Retirement Costs					
16		Total Service Company Property (Total of Lines 1-15)	13,670,282	1,627,869	1,224,376		14,073,775
17	107	Construction Work in Progress:					
18		Structures, Improvements, Office Furniture/Equipment, and Other	954,571	1,321,670		(1,627,869)	648,372
19							
20							
21							
22							
23							
24							
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27							
28							
29							
30							
31		Total Account 107 (Total of Lines 18-30)	954,571	1,321,670		(1,627,869)	648,372
32		Total (Lines 16 and Line 31)	14,624,853	2,949,539		(1,627,869)	14,722,147

Name of Respondent LG&E and KU Services Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
FOOTNOTE DATA			

Schedule Page: 103 Line No.: 18 Column: f

\$1,627,869 was transferred from Construction Work in Progress to Service Company Property.

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule III – Accumulated Provision for Depreciation and Amortization of Service Company Property

1. Provide an explanation of Other Charges in Column (f) considered material in a footnote.

Line No.	Account Number (a)	Description (b)	Balance at Beginning of Year (c)	Additions Charged To Account 403-403.1 404-405 (d)	Retirements (e)	Other Changes Additions (Deductions) (f)	Balance at Close of Year (g)
1	301	Organization					
2	303	Miscellaneous Intangible Plant	55,145	35,731			90,876
3	306	Leasehold Improvements					
4	389	Land and Land Rights					
5	390	Structures and Improvements	1,423,955	878,228		(136)	2,302,047
6	391	Office Furniture and Equipment	2,638,460	965,923	1,224,376		2,380,007
7	392	Transportation Equipment					
8	393	Stores equipment					
9	394	Tools, Shop and Garage Equipment					
10	395	Laboratory Equipment					
11	396	Power Operated Equipment					
12	397	Communications Equipment	22,877	11,712			34,589
13	398	Miscellaneous Equipment					
14	399	Other Tangible Property					
15	399.1	Asset Retirement Costs					
16		Total	4,140,437	1,891,594	1,224,376	(136)	4,807,519

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule IV – Investments

- For other investments (Account 124) and other special funds (Account 128), in a footnote state each investment separately, with description including the name of issuing company, number of shares held or principal investment amount.
- For temporary cash investments (Account 136), list each investment separately in a footnote.
- Investments less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	123	Investment In Associate Companies	76,400,000	
2	124	Other Investments		
3	128	Other Special Funds		
4	136	Temporary Cash Investments		
5		(Total of Lines 1-4)	76,400,000	

Name of Respondent	This Report is:	Resubmission Date	Year of Report
LG&E and KU Services Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2018
FOOTNOTE DATA			

Schedule Page: 105 Line No.: 1 Column: c

See footnote data detail on Schedule Page: 101, Line No.:11, column: e.

Schedule V – Accounts Receivable from Associate Companies

1. List the accounts receivable from each associate company.
2. If the service company has provided accommodation or convenience payments for associate companies, provide in a separate footnote a listing of total payments for each associate company.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	146	Accounts Receivable From Associate Companies		
2		Associate Company:		
3		PPL Corporation		748,454
4		PPL Electric Utilities Corporation	40,357	8,041
5		PPL Strategic Development, LLC		2,679
6		LG&E and KU Energy LLC - Note Receivable	378,566	64,477,455
7		LG&E and KU Services Company	18,387,347	
8		LG&E and KU Capital LLC	84,158,018	121,143,518
9		FCD LLC	889	207
10		Kentucky Utilities Company	26,557,124	28,722,609
11		Louisville Gas and Electric Company	21,697,470	25,795,006
12		Western Kentucky Energy Corp.	12,089	238
13		LG&E and KU Energy LLC	3,319,819	30,043
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38				
39		Analysis of convenience or accommodation payments - see footnote		
40	Total		154,551,679	240,928,250

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
LG&E and KU Services Company			
FOOTNOTE DATA			

Schedule Page: 106 Line No.: 7 Column: c

Intercompany receivable associated with push-down purchase accounting.

Schedule Page: 106 Line No.: 39 Column: b

Analysis of Convenience or Accomodation Payments:

Associate Company:	Amount
LG&E and KU Capital LLC	\$ 3,730,820
PPL Services Corporation	2,021,851
PPL Corporation	65,025
PPL Strategic Development, LLC	1,326
PPL Translink, Inc.	333
Louisville Gas and Electric Company	432,358,741
Kentucky Utilities Company	440,341,280
Western Kentucky Energy Corp.	10,231
FCD LLC	2,558
LG&E and KU Energy LLC	697,271
Total	\$ 879,229,436

Convenience payments resulted primarily from the following:	Amount
Capital Expenditures	\$ 45,967,471
Charitable Contributions	36,485
Equipment/Facilities	18,702,512
Fringe Benefits/Overheads	74,040,502
Materials and Fuels Purchases	669,478,485
Office and Administrative Services	31,189,049
Outside Services	39,814,932
Total	\$ 879,229,436

Schedule VI – Fuel Stock Expenses Undistributed

1. List the amount of labor in Column (c) and expenses in Column (d) incurred with respect to fuel stock expenses during the year and indicate amount attributable to each associate company.
 2. In a separate footnote, describe in a narrative the fuel functions performed by the service company.

Line No.	Account Number (a)	Title of Account (b)	Labor (c)	Expenses (d)	Total (e)
1	152	Fuel Stock Expenses Undistributed			
2		Associate Company:			
3				0	
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39					
40	Total				

Name of Respondent	This Report is:	Resubmission Date	Year of Report
LG&E and KU Services Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2018
FOOTNOTE DATA			

Schedule Page: 107 Line No.: 3 Column: d

Fuel functions provided are primarily accounted for as convenience payments for fuel contract settlements or services provided by LKS as an administrative agent, paying agent or other representative capacity, for the respective affiliate(s).

The following fuel related services are provided by LKS and charged to the respective FERC accounts of the affiliates:

- Procurement of fuel, scrubber reagent, ammonia, and SO3 mitigation chemicals
- Transportation service to move these commodities from the loading point to the power plant
- Monitoring of quality, inventory level, and forecasted requirements
- Making purchases as needed on a timely basis
- Preparing bid solicitation for coal, and other commodities, as necessary, and evaluating those bids
- Negotiating and writing the contracts and purchase orders
- Contract Administration

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule VII – Stores Expense Undistributed

1. List the amount of labor in Column (c) and expenses in Column (d) incurred with respect to stores expense during the year and indicate amount attributable to each associate company.

Line No.	Account Number (a)	Title of Account (b)	Labor (c)	Expenses (d)	Total (e)
1	163	Stores Expense Undistributed			
2		Associate Company:			
3					
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5					
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39					
40	Total				

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule VIII - Miscellaneous Current and Accrued Assets

1. Provide detail of items in this account. Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	174	Miscellaneous Current and Accrued Assets		
2		Item List:		
3				
4				
5				
6				
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40	Total			

Schedule IX - Miscellaneous Deferred Debits

1. Provide detail of items in this account. Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	186	Miscellaneous Deferred Debits		
2		Items List:		
3				
4				
5				
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39				
40	Total			

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule X - Research, Development, or Demonstration Expenditures

1. Describe each material research, development, or demonstration project that incurred costs by the service corporation during the year. Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Amount (c)
1	188	Research, Development, or Demonstration Expenditures	
2		Project List:	
3			
4			
5			
6			
7			
8			
9			
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11			
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39			
40	Total		

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule XI - Proprietary Capital

1. For miscellaneous paid-in capital (Account 211) and appropriate retained earnings (Account 215), classify amounts in each account, with a brief explanation, disclosing the general nature of transactions which give rise to the reported amounts.

2. For the unappropriated retained earnings (Account 216), in a footnote, give particulars concerning net income or (loss) during the year, distinguishing between compensation for the use of capital owed or net loss remaining from servicing nonassociates per the General Instructions of the Uniform System of Accounts. For dividends paid during the year in cash or otherwise, provide rate percentages, amount of dividend, date declared and date paid.

Line No.	Account Number (a)	Title of Account (b)	Description (c)	Amount (d)
1	201	Common Stock Issued	Number of Shares Authorized	1,000
2			Par or Stated Value per Share	
3			Outstanding Number of Shares	100
4			Close of Period Amount	100
5		Preferred Stock Issued	Number of Shares Authorized	
6			Par or Stated Value per Share	
7			Outstanding Number of Shares	
8			Close of Period Amount	
9	211	Miscellaneous Paid-In Capital		100,000,900
10	215	Appropriated Retained Earnings		
11	219	Accumulated Other Comprehensive Income		(129,482,601)
12	216	Unappropriated Retained Earnings	Balance at Beginning of Year	(32,545,952)
13			Net Income or (Loss)	(2,754,964)
14			Dividend Paid	25,956,656
15			Balance at Close of Year	(9,344,260)

Name of Respondent	This Report is:	Resubmission Date	Year of Report
LG&E and KU Services Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2018
FOOTNOTE DATA			

Schedule Page: 201 Line No.: 14 Column: d

In 2018, LKS adopted ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income resulting from the Tax Cuts and Jobs Act, and reclassified \$25,956,656 from account 219, Other Comprehensive Income, to account 439, Adjustments to Retained Earnings. FERC approved the use of account 439, Adjustments to Retained Earnings, in Docket No. AC18-59-000 on November 15, 2018. No dividends were paid during 2018.

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule XII – Long Term Debt

- For the advances from associate companies (Account 223), describe in a footnote the advances on notes and advances on open accounts. Names of associate companies from which advances were received shall be shown under the class and series of obligation in Column (c).
- For the deductions in Column (h), please give an explanation in a footnote.
- For other long-term debt (Account 224), list the name of the creditor company or organization in Column (b).

Line No.	Account Number (a)	Title of Account (b)	Term of Obligation Class & Series of Obligation (c)	Date of Maturity (d)	Interest Rate (e)	Amount Authorized (f)	Balance at Beginning of Year (g)	Additions Deductions (h)	Balance at Close of Year (i)
1	223	Advances from Associate Companies							
2		Associate Company:							
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13		TOTAL							
14	224	Other Long-Term Debt							
15		List Creditor:							
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28		TOTAL							

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule XIII – Current and Accrued Liabilities

1. Provide the balance of notes and accounts payable to each associate company (Accounts 233 and 234).
2. Give description and amount of miscellaneous current and accrued liabilities (Account 242). Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	233	Notes Payable to Associates Companies		
2				
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23				
24	234	Accounts Payable to Associate Companies		
25		PPL Corporation	221,213	596,551
26		PPL EU Services Corporation		860,446
27		PPL Services Corporation	2,533,612	1,790,598
28				
29				
30				
31				
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41	242	Miscellaneous Current and Accrued Liabilities		
42		Miscellaneous Liability - Vested Vacation	11,653,175	11,910,811
43		Accrued Short Term Incentive	2,311,073	3,622,016
44		Pension Payable SERP Current	4,278,334	4,253,280
45		Retirement Income Liability	2,371,119	2,766,558
46		Incurred But Not Paid (IBNP) Medical and Dental Reserve	1,582,347	1,623,831
47				
48				
49				
50		(Total)	24,950,873	27,424,091

Name of Respondent LG&E and KU Services Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
Schedule XIV- Notes to Financial Statements			

1. Use the space below for important notes regarding the financial statements or any account thereof.
2. Furnish particulars as to any significant contingent assets or liabilities existing at the end of the year.
3. Furnish particulars as to any significant increase in services rendered or expenses incurred during the year.
4. Furnish particulars as to any amounts recorded in Account 434, Extraordinary Income, or Account 435, Extraordinary Deductions.
5. Notes relating to financial statements shown elsewhere in this report may be indicated here by reference.
6. Describe the annual statement supplied to each associate service company in support of the amount of interest on borrowed capital and compensation for use of capital billed during the calendar year. State the basis for billing of interest to each associate company. If a ratio, describe in detail how ratio is computed. If more than one ratio explain the calculation. Report the amount of interest borrowed and/or compensation for use of capital billed to each associate company.

Note 1 – Organization of LG&E and KU Services Company

LG&E and KU Services Company ("LKS" or the "Company"), a Kentucky corporation, is a wholly-owned subsidiary of LG&E and KU Energy LLC ("LKE") and a centralized service company under the Public Utility Holding Company Act of 2005 ("PUHCA 2005"). LKE, in turn, is a wholly-owned subsidiary of PPL Corporation ("PPL") and LKS became an indirect, wholly-owned subsidiary of PPL when PPL acquired all the limited liability company interests of LKE from E.ON US Investments Corp. on November 1, 2010. On December 1, 2010, PPL and certain subsidiaries, including LKE, filed a notification of holding company status with the Federal Energy Regulatory Commission ("FERC") under PUHCA 2005. LKE had previously been party to such a notification filed on June 15, 2006 by E.ON AG, its former parent. LKS originally was authorized to conduct business as a service company for E.ON U.S. LLC (formerly LG&E Energy LLC) and its various subsidiaries and affiliates by order of the Securities and Exchange Commission dated December 6, 2000, and commenced operations January 1, 2001.

LKS provides certain services to affiliated entities, including LKE, LG&E and KU Capital LLC ("LKC"), LG&E Energy Marketing Inc. ("LEM"), Louisville Gas and Electric Company ("LG&E"), Kentucky Utilities Company ("KU"), Western Kentucky Energy Corp., FCD LLC, PPL Corporation, PPL Services Corporation, and PPL Electric Utilities Corporation, at cost. LKS is organized along functional lines to accomplish its purpose of providing management, administrative, and technical services.

Note 2 - Summary of Significant Accounting Policies

LKS follows the FERC Uniform System of Accounts for Centralized Service Companies Subject to the Provisions of PUHCA 2005. The accompanying financial statements were prepared in accordance with the accounting requirements set forth in the Uniform System of Accounts and published accounting releases of the FERC, which is a comprehensive basis of accounting other than GAAP.

General. Dollars within these footnotes are in millions, unless otherwise noted.

Presentation

The accompanying financial statements are prepared on the regulatory basis of accounting in accordance with the requirements of the FERC, which is a comprehensive basis of accounting other than GAAP. The significant differences between GAAP and FERC reporting are as follows:

Reporting Classifications	FERC reporting	GAAP reporting
Deferred taxes	Reported gross on the Balance Sheet (a deferred asset and a deferred liability are recorded).	Reported as a net asset or net liability.

Name of Respondent LG&E and KU Services Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
Schedule XIV- Notes to Financial Statements			

Reporting Classifications	FERC reporting	GAAP reporting
Income taxes	Income taxes, deferred taxes and investment tax credits are reported on separate lines on the Income Statement.	Income taxes, deferred taxes and investment tax credits are netted on a single line on the Income Statement.
Pension and OPEB non-service costs eligible for capitalization	Reported in PP&E.	Reported as a regulatory asset or regulatory liability
Utility plant acquired before November 1, 2010	Reported at original cost.	Restated to net fair value as of November 1, 2010.
Amounts presented within the Balance Sheet, Income Statement and Statement of Retained Earnings.	Reported without purchase accounting adjustments.	Reported with purchase accounting adjustments.

Property. Property, plant and equipment includes property that is in use and under construction, and is reported at cost. PP&E was not recorded at fair value as of the PPL acquisition for FERC-reporting purposes.

Depreciation and Amortization. Depreciation is computed on a straight-line basis. Office furniture is depreciated over 30 years and personal computers are depreciated over 3 years. Leasehold improvements are depreciated over the life of the lease.

Tax Cuts and Jobs Act (TCJA). The Company 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 and deductible executive compensation, both of which were based on the interpretation and application of various provisions of the TCJA.

LKS's federal income tax return is included in a United States consolidated income tax return filed by LKS's parent, PPL. 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 the 2017 Form 10-K. Accordingly, LKS updated the provisional amounts and now consider them to be complete. In addition, LKS 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.

Effective October 1, 2018, LKS prospectively adopted 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.

The adoption of this guidance resulted in LKS reclassifying \$26 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.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report
LG&E and KU Services Company			2018
Schedule XIV- Notes to Financial Statements			

Kentucky State Tax Reform (HB 487). 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. LKS recognized a deferred tax charge of \$3 million in the second quarter of 2018 associated with the remeasurement of accumulated deferred income tax balances.

Income Taxes. Significant management judgment is required in developing the Company's provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and valuation allowances on deferred tax assets.

Significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Company uses a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Company in future periods. See Note 5, Income Taxes.

Accumulated Deferred Income Taxes. Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards. See Note 5, Income Taxes.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Related Party Transactions

Provisions of Services

LKS engages in transactions in the normal course of business with other LKE subsidiaries and PPL subsidiaries. These transactions are primarily composed of services received and/or rendered including contracting with third party vendors for goods and services. These services are priced at cost which represents market.

LKS provides the subsidiaries of LKE and PPL with a variety of centralized administrative, management and support services. Charges for these services include labor, overheads and other expenses of LKS employees performing services for the subsidiaries of LKE and PPL and vouchers paid by LKS on behalf of the subsidiaries of LKE and PPL. The cost of these services is directly charged or, for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the ratios discussed in Methods of Allocations on pages 402.1 – 402.5.

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Intercompany billings from LKS are listed on page 307, Analysis of Billing – Associate Companies (Account 457). These billings do not include convenience payments which are shown as a footnote to page 106, line 39, column b.

Intercompany billings are settled monthly, accordingly there is no interest or other compensation charged for the use of capital.

Note 4 - Pension and Other Postretirement Benefit Plans

Although LKS does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The defined benefit pension plan of LKE and its subsidiaries was closed to new employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

The majority of LKS employees are eligible for certain health care and life insurance benefits upon retirement through a contributory plan. Postretirement health benefits may be paid from a 401(h) account established as part of the LKE plan within the PPL Services Corporation Master Trust, funded VEBA trusts, and company funds.

LKS allocates its pension and other postretirement costs to affiliates. LKS's allocated pension benefit costs charged to expense or regulatory assets, excluding amounts charged to construction and other balance sheet accounts, for pension benefits were \$23 million in both 2018 and 2017, and amounts charged to construction work in progress and other balance sheet accounts were \$5 million in both 2018 and 2017. Net periodic defined benefits costs charged to expense, excluding amounts charged to construction and other balance sheet accounts, for other postretirement benefits were less than a million and \$1 million in 2018 and 2017.

The actuarially determined obligations of current active employees and retired employees of LKS are used as a basis to allocate total plan activity, including active and retiree costs and obligations. LKS's allocated share of the funded status of the pension plans resulted in a liability of \$273 million and \$287 million at December 31, 2018 and 2017. LKS's allocated share of other postretirement benefits resulted in no liability at December 31, 2018 and a liability of \$3 million at December 31, 2017.

Plan Assets - Pension Plans

The pension plan sponsored by LKE is invested in the PPL Services Corporation Master Trust ("the Master Trust") that also includes a 401(h) account that is restricted for certain other postretirement benefit obligations of LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with the Company's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the Employee Benefit Plan Board (EBPB), external investment managers, investment advisor, trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

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The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines, as of the end of 2018, are presented below.

The asset allocation for the trust and the target allocation by portfolio, at December 31, are as follows:

	Percentage of Trust Assets	Target Asset Allocation (a)
	2018 (a)	2018
Growth Portfolio	55%	55%
Equity securities	30%	
Debt securities (b)	15%	
Alternative investments	10%	
Immunizing Portfolio	43%	43%
Debt securities (b)	39%	
Derivatives	4%	
Liquidity Portfolio	2%	2%
Total	100%	100%

	Percentage of Trust Assets
	2017
Growth Portfolio	56%
Equity securities	32%
Debt securities (b)	14%
Alternative investments	10%
Immunizing Portfolio	43%
Debt securities (b)	39%
Derivatives	4%
Liquidity Portfolio	1%
Total	100%

(a) Allocations exclude consideration of a group annuity contract held by the LG&E and KU Retirement Plan.

(b) Includes commingled debt funds, which the Company treats as debt securities for asset allocation purposes.

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LKE has pension plans, including LG&E's plan, whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of the plans' assets of \$1.3 billion and \$1.4 billion at December 31, 2018 and 2017 represents an interest of approximately 42% and 40% in the Master Trust.

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

DECEMBER 31, 2018

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$ 220	\$ 220	\$ -	\$ -
Equity securities				
U.S.:				
U.S. Equity	159	159	-	-
U.S. Equity fund measured at NAV (a)	340	-	-	-
International equity fund at NAV (a)	466	-	-	-
Commingled debt measured at NAV (a)	543	-	-	-
Debt securities:				
U.S. Treasury and U.S. government sponsored agency	212	212	-	-
Corporate	899	-	874	25
Other	17	-	17	-
Alternative investments:				
Real estate measured at NAV (a)	90	-	-	-
Private equity measured at NAV (a)	65	-	-	-
Hedge funds measured at NAV (a)	175	-	-	-
Derivatives	33	-	33	-
Insurance Contracts	21	-	-	21
PPL Services Corporation Master Trust assets, at fair value	<u>\$ 3,240</u>	<u>\$ 591</u>	<u>\$ 924</u>	<u>\$ 46</u>
Receivables and payables, net (b)	(2)	-	-	-
401(h) account restricted for other postretirement benefit obligations	(129)	-	-	-
Total PPL Services Corporation Master Trust pension assets	<u>\$ 3,109</u>			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables, net represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

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DECEMBER 31, 2017

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$ 301	\$ 301	\$ -	\$ -
Equity securities				
U.S.:				
U.S. Equity	229	229	-	-
U.S. Equity fund measured at NAV (a)	364	-	-	-
International equity fund at NAV (a)	538	-	-	-
Commingled debt measured at NAV (a)	611	-	-	-
Debt securities:				
U.S. Treasury and U.S. government sponsored agency	186	186	-	-
Corporate	883	-	870	13
Other	10	-	10	-
Alternative investments:				
Real estate measured at NAV (a)	109	-	-	-
Private equity measured at NAV (a)	80	-	-	-
Hedge funds measured at NAV (a)	175	-	-	-
Derivatives:				
Interest rate swaps and swaptions	50	-	50	-
Other	1	-	1	-
Insurance Contracts	24	-	-	24
PPL Services Corporation Master Trust assets, at fair value	\$ 3,561	\$ 716	\$ 931	\$ 37
Receivables and payables, net (b)	72	-	-	-
401(h) account restricted for other postretirement benefit obligations	(145)	-	-	-
Total PPL Services Corporation Master Trust pension assets	<u>\$ 3,488</u>			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables, net represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

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A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2018 is as follows:

	Corporate Debt	Insurance Contracts	Total
Balance at beginning of period	\$ 13	\$ 24	\$ 37
Actual return on plan assets			
Relating to assets still held at the reporting date		1	(1)
	(2)		
Relating to assets sold during period	3	-	3
Purchases, sales and settlements	11	(4)	7
Balance at end of period	\$ 25	\$ 21	\$ 46

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2017 is as follows:

	Corporate Debt	Insurance Contracts	Total
Balance at beginning of period	\$ 13	\$ 27	\$ 40
Actual return on plan assets			
Relating to assets still held at the reporting date		1	1
	-		
Purchases, sales and settlements	-	(4)	(4)
Balance at end of period	\$ 13	\$ 24	\$ 37

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as

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payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The strategy is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. The partnerships have limited lives of at least 10 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The Master Trust has unfunded commitments of \$71 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in a fund of hedge funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the fund of hedge funds include long/short equity, tactical trading, event driven, and relative value. Shares may be redeemed with 45 days prior written notice. The fund is subject to short term lockups and other restrictions. The fair value for the fund has been estimated using the net asset value per share.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in treasury futures, total return swaps, interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on quoted prices, changes in the value of the underlying exposure or on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

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Plan Assets – Other Postretirement Benefit Plans

LKE's other postretirement benefit plan is invested primarily in a 401(h) account, as disclosed in the PPL Services Corporation Master Trust, with insignificant amounts invested in money market funds within VEBA trusts for liquidity.

Expected Cash Flows - Defined Benefit Plans

LKS made contributions to the defined benefit pension plan of \$5 million in 2018 and no contributions were made in 2017. Contributions to offset Supplemental Executive Retirement Plan ("SERP") payments totaled \$4 million and \$3 million in 2018 and 2017. LKE's defined benefit pension plan has the option to utilize an available prior year credit balance to meet current and future contribution requirements. LKS contributed \$19 million to LKE's pension plan in January 2019. Contributions to offset SERP payments would cause LKS to contribute \$4 million in 2019. No additional contributions are expected in 2019.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the LKE plans for LKS retirees.

Note 5 - Income Taxes

LKS's federal income tax return is included in a United States consolidated income tax return filed by LKS's parent, PPL. Each subsidiary of the consolidated tax group calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. The tax years for 2013 and prior for Federal and State are no longer subject to examination.

Components of income tax expense are shown in the table below for the year ended December 31:

	<u>2018</u>	<u>2017</u>
Current – federal	\$ 1	\$ 5
Current – state	-	1
Deferred – federal – net (a)	-	36
Deferred – state – net (b)	4	(1)
Total income tax expense	<u>\$ 5</u>	<u>\$ 41</u>

(a) Due to the enactment of the TCJA in 2017, LKS recorded a \$40 million deferred tax expense related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities.

(b) Due to the enactment of HB 487, LKS recorded a \$3 million deferred tax expense related to the impact of the Kentucky corporate income tax rate reduction from 6% to 5% on deferred tax assets and liabilities

Deferred tax assets and liabilities are summarized below as of December 31:

	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Pensions and similar obligations	\$ 62	\$ 72
Liabilities and other	14	16
Total Deferred income tax assets	<u>\$ 76</u>	<u>\$ 88</u>

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Note 6 - Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income consisted of the following:

(in millions)	Funded Status of Pension and Postretirement Plans		
	<u>Pretax</u>	<u>Tax</u>	<u>Net</u>
Balance at December 31, 2016	\$ (182)	\$ 71	\$ (111)
Change in funded status of pension and postretirement plans	(23)	8	(15)
Balance at December 31, 2017	\$ (205)	\$ 79	\$ (126)
Change in funded status of pension and post retirement plans	30	(34)	(4)
Balance at December 31, 2018	\$ (175)	\$ 45	\$ (130)

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Schedule XV- Comparative Income Statement

Line No.	Account Number (a)	Title of Account (b)	Current Year (c)	Prior Year (d)
1		SERVICE COMPANY OPERATING REVENUES		
2	400	Service Company Operating Revenues	333,482,527	373,074,715
3		SERVICE COMPANY OPERATING EXPENSES		
4	401	Operation Expenses	224,176,021	230,844,243
5	402	Maintenance Expenses	6,496,538	8,114,445
6	403	Depreciation Expenses	1,891,594	1,902,344
7	403.1	Depreciation Expense for Asset Retirement Costs		
8	404	Amortization of Limited-Term Property		
9	405	Amortization of Other Property		
10	407.3	Regulatory Debits		
11	407.4	Regulatory Credits		
12	408.1	Taxes Other Than Income Taxes, Operating Income	11,809,723	12,486,446
13	409.1	Income Taxes, Operating Income	830,093	6,816,520
14	410.1	Provision for Deferred Income Taxes, Operating Income	11,523,916	53,874,663
15	411.1	Provision for Deferred Income Taxes – Credit, Operating Income	(7,381,008)	(18,818,835)
16	411.4	Investment Tax Credit, Service Company Property		
17	411.6	Gains from Disposition of Service Company Plant		
18	411.7	Losses from Disposition of Service Company Plant		
19	411.10	Accretion Expense		
20	412	Costs and Expenses of Construction or Other Services	86,189,302	115,946,227
21	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work		2,628
22		TOTAL SERVICE COMPANY OPERATING EXPENSES (Total of Lines 4-21)	335,536,179	411,168,681
23		NET SERVICE COMPANY OPERATING INCOME (Total of Lines 2 less 22)	(2,053,652)	(38,093,966)
24		OTHER INCOME		
25	418.1	Equity in Earnings of Subsidiary Companies		
26	419	Interest and Dividend Income	1,984,891	1,517,947
27	419.1	Allowance for Other Funds Used During Construction		
28	421	Miscellaneous Income or Loss		2,590
29	421.1	Gain on Disposition of Property		
30		TOTAL OTHER INCOME (Total of Lines 25-29)	1,984,891	1,520,537
31		OTHER INCOME DEDUCTIONS		
32	421.2	Loss on Disposition of Property		
33	425	Miscellaneous Amortization		
34	426.1	Donations		
35	426.2	Life Insurance		
36	426.3	Penalties		
37	426.4	Expenditures for Certain Civic, Political and Related Activities	1,077,491	1,056,821
38	426.5	Other Deductions	1,841,859	2,724,150
39		TOTAL OTHER INCOME DEDUCTIONS (Total of Lines 32-38)	2,919,350	3,780,971
40		TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS		

Schedule XV- Comparative Income Statement (continued)

Line No.	Account Number (a)	Title of Account (b)	Current Year (c)	Prior Year (d)
41	408.2	Taxes Other Than Income Taxes, Other Income and Deductions		
42	409.2	Income Taxes, Other Income and Deductions	(233,147)	(880,331)
43	410.2	Provision for Deferred Income Taxes, Other Income and Deductions		
44	411.2	Provision for Deferred Income Taxes – Credit, Other Income and Deductions		
45	411.5	Investment Tax Credit, Other Income Deductions		
46		TOTAL TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS (Total of Lines 41-45)	(233,147)	(880,331)
47		INTEREST CHARGES		
48	427	Interest on Long-Term Debt		
49	428	Amortization of Debt Discount and Expense		
50	429	(less) Amortization of Premium on Debt- Credit		
51	430	Interest on Debt to Associate Companies		
52	431	Other Interest Expense		
53	432	(less) Allowance for Borrowed Funds Used During Construction-Credit		
54		TOTAL INTEREST CHARGES (Total of Lines 48-53)		
55		NET INCOME BEFORE EXTRAORDINARY ITEMS (Total of Lines 23, 30, minus 39, 46, and 54)	(2,754,964)	(39,474,069)
56		EXTRAORDINARY ITEMS		
57	434	Extraordinary Income		
58	435	(less) Extraordinary Deductions		
59		Net Extraordinary Items (Line 57 less Line 58)		
60	409.4	(less) Income Taxes, Extraordinary		
61		Extraordinary Items After Taxes (Line 59 less Line 60)		
62		NET INCOME OR LOSS/COST OF SERVICE (Total of Lines 55-61)	(2,754,964)	(39,474,069)

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Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies

1. Total cost of service will equal for associate and nonassociate companies the total amount billed under their separate analysis of billing schedules.

Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
1	403-403.1	Depreciation Expense		1,891,594	1,891,594			
2	404-405	Amortization Expense						
3	407.3-407.4	Regulatory Debits/Credits – Net						
4	408.1-408.2	Taxes Other Than Income Taxes	1,020,094	10,789,628	11,809,722			
5	409.1-409.3	Income Taxes						
6	410.1-411.2	Provision for Deferred Taxes						
7	411.1-411.2	Provision for Deferred Taxes – Credit						
8	411.6	Gain from Disposition of Service Company Plant						
9	411.7	Losses from Disposition of Service Company Plant						
10	411.4-411.5	Investment Tax Credit Adjustment						
11	411.10	Accretion Expense						
12	412	Costs and Expenses of Construction or Other Services	51,891,213	34,298,090	86,189,303			
13	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work for Associated Companies						
14	418	Non-operating Rental Income						
15	418.1	Equity in Earnings of Subsidiary Companies						
16	419	Interest and Dividend Income						
17	419.1	Allowance for Other Funds Used During Construction						
18	421	Miscellaneous Income or Loss						
19	421.1	Gain on Disposition of Property						
20	421.2	Loss on Disposition Of Property						
21	425	Miscellaneous Amortization						
22	426.1	Donations						
23	426.2	Life Insurance						
24	426.3	Penalties						
25	426.4	Expenditures for Certain Civic, Political and Related Activities	9,634	1,067,855	1,077,489			
26	426.5	Other Deductions	1,094,857	747,002	1,841,859			
27	427	Interest On Long-Term Debt						
28	428	Amortization of Debt Discount and Expense						
29	429	Amortization of Premium on Debt – Credit						
30	430	Interest on Debt to Associate Companies						
31	431	Other Interest Expense						
32	432	Allowance for Borrowed Funds Used During Construction						
33	500-509	Total Steam Power Generation Operation Expenses	4,344,518	10,862,931	15,207,449			
34	510-515	Total Steam Power Generation Maintenance Expenses	730,030	1,456,272	2,186,302			

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
1	403-403.1	Depreciation Expense		1,891,594	1,891,594
2	404-405	Amortization Expense			
3	407.3-407.4	Regulatory Debits/Credits - Net			
4	408.1-408.2	Taxes Other Than Income Taxes	1,020,094	10,789,628	11,809,722
5	409.1-409.3	Income Taxes			
6	410.1-411.2	Provision for Deferred Taxes			
7	411.1-411.2	Provision for Deferred Taxes - Credit			
8	411.6	Gain from Disposition of Service Company Plant			
9	411.7	Losses from Disposition of Service Company Plant			
10	411.4-411.5	Investment Tax Credit Adjustment			
11	411.10	Accretion Expense			
12	412	Costs and Expenses of Construction or Other Services	51,891,213	34,298,090	86,189,303
13	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work for Associated Companies			
14	418	Non-operating Rental Income			
15	418.1	Equity in Earnings of Subsidiary Companies			
16	419	Interest and Dividend Income			
17	418.1	Allowance for Other Funds Used During Construction			
18	421	Miscellaneous Income or Loss			
19	421.1	Gain on Disposition of Property			
20	421.2	Loss on Disposition Of Property			
21	425	Miscellaneous Amortization			
22	426.1	Donations			
23	426.2	Life Insurance			
24	426.3	Penalties			
25	426.4	Expenditures for Certain Civic, Political and Related Activities	9,634	1,067,855	1,077,489
26	426.5	Other Deductions	1,094,857	747,002	1,841,859
27	427	Interest On Long-Term Debt			
28	428	Amortization of Debt Discount and Expense			
29	429	Amortization of Premium on Debt - Credit			
30	430	Interest on Debt to Associate Companies			
31	431	Other Interest Expense			
32	432	Allowance for Borrowed Funds Used During Construction			
33	500-509	Total Steam Power Generation Operation Expenses	4,344,518	10,862,931	15,207,449
34	510-515	Total Steam Power Generation Maintenance Expenses	730,030	1,456,272	2,186,302

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Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
35	517-525	Total Nuclear Power Generation Operation Expenses						
36	528-532	Total Nuclear Power Generation Maintenance Expenses						
37	535-540.1	Total Hydraulic Power Generation Operation Expenses	714		714			
38	541-545.1	Total Hydraulic Power Generation Maintenance Expenses	2,511		2,511			
39	546-550.1	Total Other Power Generation Operation Expenses	144,282	(1,199)	143,083			
40	551-554.1	Total Other Power Generation Maintenance Expenses	25,829		25,829			
41	555-557	Total Other Power Supply Operation Expenses	20,013	2,958,443	2,978,456			
42	560	Operation Supervision and Engineering	875	2,373,319	2,374,194			
43	561.1	Load Dispatch-Reliability		912,636	912,636			
44	561.2	Load Dispatch-Monitor and Operate Transmission System	1,663,614	1,368,791	3,032,405			
45	561.3	Load Dispatch-Transmission Service and Scheduling		1,240,324	1,240,324			
46	561.4	Scheduling, System Control and Dispatch Services						
47	561.5	Reliability Planning and Standards Development		861,476	861,476			
48	561.6	Transmission Service Studies	6,271		6,271			
49	561.7	Generation Interconnection Studies	2,476		2,476			
50	561.8	Reliability Planning and Standards Development Services						
51	562	Station Expenses (Major Only)	232,887		232,887			
52	563	Overhead Line Expenses (Major Only)	82,891		82,891			
53	564	Underground Line Expenses (Major Only)						
54	565	Transmission of Electricity by Others (Major Only)						
55	566	Miscellaneous Transmission Expenses (Major Only)	147,924	1,071,945	1,219,869			
56	567	Rents						
57	567.1	Operation Supplies and Expenses (Nonmajor Only)						
58		Total Transmission Operation Expenses	2,136,938	7,828,491	9,965,429			
59	568	Maintenance Supervision and Engineering (Major Only)						
60	569	Maintenance of Structures (Major Only)						
61	569.1	Maintenance of Computer Hardware						
62	569.2	Maintenance of Computer Software						
63	569.3	Maintenance of Communication Equipment						
64	569.4	Maintenance of Miscellaneous Regional Transmission Plant						
65	570	Maintenance of Station Equipment (Major Only)	329,900	514,876	844,776			
66	571	Maintenance of Overhead Lines (Major Only)	436,305		436,305			
67	572	Maintenance of Underground Lines (Major Only)						
68	573	Maintenance of Miscellaneous Transmission Plant (Major Only)	160,061	43,833	203,894			

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
35	517-525	Total Nuclear Power Generation Operation Expenses			
36	528-532	Total Nuclear Power Generation Maintenance Expenses			
37	535-540.1	Total Hydraulic Power Generation Operation Expenses	714		714
38	541-545.1	Total Hydraulic Power Generation Maintenance Expenses	2,511		2,511
39	546-550.1	Total Other Power Generation Operation Expenses	144,282	(1,199)	143,083
40	551-554.1	Total Other Power Generation Maintenance Expenses	25,829		25,829
41	555-557	Total Other Power Supply Operation Expenses	20,013	2,958,443	2,978,456
42	560	Operation Supervision and Engineering	875	2,373,319	2,374,194
43	581.1	Load Dispatch-Reliability		912,636	912,636
44	581.2	Load Dispatch-Monitor and Operate Transmission System	1,663,614	1,388,791	3,032,405
45	581.3	Load Dispatch-Transmission Service and Scheduling		1,240,324	1,240,324
46	581.4	Scheduling, System Control and Dispatch Services			
47	581.5	Reliability Planning and Standards Development		861,476	861,476
48	581.6	Transmission Service Studies	6,271		6,271
49	581.7	Generation Interconnection Studies	2,476		2,476
50	581.8	Reliability Planning and Standards Development Services			
51	582	Station Expenses (Major Only)	232,887		232,887
52	583	Overhead Line Expenses (Major Only)	82,891		82,891
53	584	Underground Line Expenses (Major Only)			
54	585	Transmission of Electricity by Others (Major Only)			
55	586	Miscellaneous Transmission Expenses (Major Only)	147,924	1,071,945	1,219,869
56	587	Rents			
57	587.1	Operation Supplies and Expenses (Nonmajor Only)			
58		Total Transmission Operation Expenses	2,136,938	7,828,491	9,965,429
59	588	Maintenance Supervision and Engineering (Major Only)			
60	589	Maintenance of Structures (Major Only)			
61	589.1	Maintenance of Computer Hardware			
62	589.2	Maintenance of Computer Software			
63	589.3	Maintenance of Communication Equipment			
64	589.4	Maintenance of Miscellaneous Regional Transmission Plant			
65	570	Maintenance of Station Equipment (Major Only)	329,900	514,876	844,776
66	571	Maintenance of Overhead Lines (Major Only)	436,305		436,305
67	572	Maintenance of Underground Lines (Major Only)			
68	573	Maintenance of Miscellaneous Transmission Plant (Major Only)	160,061	43,833	203,894

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
69	574	Maintenance of Transmission Plant (Nonmajor Only)						
70		Total Transmission Maintenance Expenses	926,266	558,709	1,484,975			
71	576.1-576.8	Total Regional Market Operation Expenses						
72	576.1-576.6	Total Regional Market Maintenance Expenses						
73	580-599	Total Distribution Operation Expenses	4,936,852	7,287,903	12,224,755			
74	590-598	Total Distribution Maintenance Expenses	483,854	464,267	948,121			
75		Total Electric Operation and Maintenance Expenses	67,767,605	80,209,986	147,977,591			
76	700-798	Production Expenses (Provide selected accounts in a footnote)						
77	800-813	Total Other Gas Supply Operation Expenses						
78	814-826	Total Underground Storage Operation Expenses	150,111		150,111			
79	830-837	Total Underground Storage Maintenance Expenses	34,907		34,907			
80	840-842.3	Total Other Storage Operation Expenses						
81	843.1-843.9	Total Other Storage Maintenance Expenses						
82	844.1-848.2	Total Liquefied Natural Gas Terminating and Processing Operation Expenses						
83	847.1-847.8	Total Liquefied Natural Gas Terminating and Processing Maintenance Expenses						
84	850	Operation Supervision and Engineering	975,050		975,050			
85	851	System Control and Load Dispatching	2,015		2,015			
86	852	Communication System Expenses						
87	853	Compressor Station Labor and Expenses						
88	854	Gas for Compressor Station Fuel						
89	855	Other Fuel and Power for Compressor Stations						
90	856	Mains Expenses						
91	857	Measuring and Regulating Station Expenses						
92	859	Transmission and Compression of Gas By Others						
93	859	Other Expenses						
94	860	Rents						
95		Total Gas Transmission Operation Expenses	977,065		977,065			
96	861	Maintenance Supervision and Engineering						
97	862	Maintenance of Structures and Improvements						
98	863	Maintenance of Mains	20,819		20,819			
99	864	Maintenance of Compressor Station Equipment						
100	865	Maintenance of Measuring And Regulating Station Equipment						
101	866	Maintenance of Communication Equipment						
102	867	Maintenance of Other Equipment						
103		Total Gas Transmission Maintenance Expenses	20,819		20,819			
104	870-881	Total Distribution Operation Expenses	268,812	607,532	876,344			

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
69	574	Maintenance of Transmission Plant (Nonmajor Only)			
70		Total Transmission Maintenance Expenses	926,266	558,709	1,484,975
71	575.1-575.8	Total Regional Market Operation Expenses			
72	578.1-578.5	Total Regional Market Maintenance Expenses			
73	580-589	Total Distribution Operation Expenses	4,936,852	7,287,903	12,224,755
74	590-598	Total Distribution Maintenance Expenses	483,854	464,267	948,121
75		Total Electric Operation and Maintenance Expenses	67,767,605	80,209,986	147,977,591
76	760-768	Production Expenses (Provide selected accounts in a footnote)			
77	800-813	Total Other Gas Supply Operation Expenses			
78	814-826	Total Underground Storage Operation Expenses	150,111		150,111
79	830-837	Total Underground Storage Maintenance Expenses	34,907		34,907
80	840-842.3	Total Other Storage Operation Expenses			
81	843.1-843.9	Total Other Storage Maintenance Expenses			
82	844.1-846.2	Total Liquefied Natural Gas Terminating and Processing Operation Expenses			
83	847.1-847.8	Total Liquefied Natural Gas Terminating and Processing Maintenance Expenses			
84	850	Operation Supervision and Engineering	975,050		975,050
85	851	System Control and Load Dispatching	2,015		2,015
86	852	Communication System Expenses			
87	853	Compressor Station Labor and Expenses			
88	854	Gas for Compressor Station Fuel			
89	855	Other Fuel and Power for Compressor Stations			
90	856	Mains Expenses			
91	857	Measuring and Regulating Station Expenses			
92	858	Transmission and Compression of Gas By Others			
93	859	Other Expenses			
94	860	Rents			
95		Total Gas Transmission Operation Expenses	977,065		977,065
96	881	Maintenance Supervision and Engineering			
97	882	Maintenance of Structures and Improvements			
98	883	Maintenance of Mains	20,819		20,819
99	884	Maintenance of Compressor Station Equipment			
100	885	Maintenance of Measuring And Regulating Station Equipment			
101	888	Maintenance of Communication Equipment			
102	887	Maintenance of Other Equipment			
103		Total Gas Transmission Maintenance Expenses	20,819		20,819
104	870-881	Total Distribution Operation Expenses	268,812	607,532	876,344

Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
105	885-894	Total Distribution Maintenance Expenses	48,534	116,173	164,707			
106		Total Natural Gas Operation and Maintenance Expenses	1,500,248	723,705	2,223,953			
107	901	Supervision	330,719	5,344,796	5,675,515			
108	902	Meter reading expenses	105	432,085	432,191			
109	903	Customer records and collection expenses	1,320,801	16,429,031	17,749,832			
110	904	Uncollectible accounts						
111	905	Miscellaneous customer accounts expenses		885	885			
112	906	Total Customer Accounts Operation Expenses	1,651,626	22,206,797	23,858,423			
113	907	Supervision		1,058,121	1,058,121			
114	908	Customer assistance expenses	2,170,831	690,714	2,861,545			
115	909	Informational And Instructional Advertising Expenses						
116	910	Miscellaneous Customer Service And Informational Expenses	313,160	20,043	333,203			
117		Total Service and Informational Operation Accounts	2,483,991	1,768,878	4,252,869			
118	911	Supervision						
119	912	Demonstrating and Selling Expenses						
120	913	Advertising Expenses						
121	916	Miscellaneous Sales Expenses						
122		Total Sales Operation Expenses						
123	920	Administrative and General Salaries	6,756,528	64,979,063	71,735,588			
124	921	Office Supplies and Expenses	458,123	9,980,351	10,438,474			
125	923	Outside Services Employed	5,403,202	9,531,336	14,934,538			
126	924	Property Insurance						
127	925	Injuries and Damages	81,906	24,372	106,278			
128	926	Employee Pensions and Benefits	9,964,807	41,898,802	51,863,609			
129	928	Regulatory Commission Expenses	26,340		26,340			
130	930.1	General Advertising Expenses						
131	930.2	Miscellaneous General Expenses	228	629,153	629,381			
132	931	Rents	33,889	3,773,226	3,807,117			
133		Total Administrative and General Operation Expenses	22,725,020	130,816,305	153,541,325			
134	935	Maintenance of Structures and Equipment	156,905	1,471,461	1,628,366			
135		Total Administrative and General Maintenance Expenses	27,017,542	156,263,441	183,280,983			
136		Total Cost of Service	96,285,395	237,197,132	333,482,527			

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
105	885-894	Total Distribution Maintenance Expenses	48,534	116,173	164,707
106		Total Natural Gas Operation and Maintenance Expenses	1,500,248	723,705	2,223,953
107	901	Supervision	330,719	5,344,796	5,675,515
108	902	Meter reading expenses	106	432,085	432,191
109	903	Customer records and collection expenses	1,320,801	16,429,031	17,749,832
110	904	Uncollectible accounts			
111	905	Miscellaneous customer accounts expenses		885	885
112	908	Total Customer Accounts Operation Expenses	1,651,626	22,206,797	23,858,423
113	907	Supervision		1,058,121	1,058,121
114	908	Customer assistance expenses	2,170,831	690,714	2,861,545
115	909	Informational And Instructional Advertising Expenses			
116	910	Miscellaneous Customer Service And Informational Expenses	313,160	20,043	333,203
117		Total Service and Informational Operation Accounts	2,483,991	1,768,878	4,252,869
118	911	Supervision			
119	912	Demonstrating and Selling Expenses			
120	913	Advertising Expenses			
121	916	Miscellaneous Sales Expenses			
122		Total Sales Operation Expenses			
123	920	Administrative and General Salaries	6,756,525	64,979,063	71,735,588
124	921	Office Supplies and Expenses	458,123	9,980,351	10,438,474
125	923	Outside Services Employed	5,403,202	9,531,336	14,934,538
126	924	Property Insurance			
127	925	Injuries and Damages	81,906	24,372	106,278
128	926	Employee Pensions and Benefits	9,964,807	41,898,802	51,863,609
129	928	Regulatory Commission Expenses	26,340		26,340
130	930.1	General Advertising Expenses			
131	930.2	Miscellaneous General Expenses	228	629,153	629,381
132	931	Rents	33,889	3,773,228	3,807,117
133		Total Administrative and General Operation Expenses	22,725,020	130,816,305	153,541,325
134	935	Maintenance of Structures and Equipment	158,905	1,471,461	1,628,366
135		Total Administrative and General Maintenance Expenses	27,017,542	156,263,441	183,280,983
136		Total Cost of Service	96,285,395	237,197,132	333,482,527

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule XVII - Analysis of Billing - Associate Companies (Account 457)

1. For services rendered to associate companies (Account 457), list all of the associate companies.

Line No.	Name of Associate Company (a)	Account 457.1 Direct Costs Charged (b)	Account 457.2 Indirect Costs Charged (c)	Account 457.3 Compensation For Use of Capital (d)	Total Amount Billed (e)
1	Louisville Gas and Electric Company	40,927,408	110,382,928		151,310,336
2	Kentucky Utilities Company	43,036,655	125,941,568		168,978,223
3	Western Kentucky Energy Corp.	5,218			5,218
4	FCD LLC	2,532			2,532
5	PPL EU Services Corporation	39,065	8,498		47,563
6	LG&E and KU Capital LLC	12,107,477	851,689		12,959,166
7	PPL Corporation	791	299		1,090
8	PPL Services Corporation	127,418	9,486		136,904
9	PPL Electric Utilities Corporation	29,565			29,565
10	PPL Strategic Development, LLC	9,266	2,664		11,930
11					
12					
13					
14					
15					
16					
17					
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34					
35					
36					
37					
38					
39					
40	Total	96,286,396	237,197,132		333,482,527

Schedule XVIII – Analysis of Billing – Non-Associate Companies (Account 458)

1. For services rendered to nonassociate companies (Account 458), list all of the nonassociate companies. In a footnote, describe the services rendered to each respective nonassociate company.

Line No.	Name of Non-associate Company (a)	Account 458.1 Direct Costs Charged (b)	Account 458.2 Indirect Costs Charged (c)	Account 458.3 Compensation For Use of Capital (d)	Account 458.4 Excess or Deficiency on Servicing Non-associate Utility Companies (e)	Total Amount Billed (f)
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37						
38						
39						
40	Total					

Name of Respondent LG&E and KU Services Company	This Report Is:		Resubmission Date	Year/Period of Report
	(1) <input checked="" type="checkbox"/> An Original	(2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	Dec 31, 2018

Schedule XIX - Miscellaneous General Expenses - Account 930.2

1. Provide a listing of the amount included in Account 930.2, "Miscellaneous General Expenses" classifying such expenses according to their nature. Amounts less than \$50,000 may be grouped showing the number of items and the total for the group.
 2. Payments and expenses permitted by Section 321 (b)(2) of the Federal Election Campaign Act, as amended by Public Law 94-283 in 1976 (2 U.S.C. 441(b)(2)) shall be separately classified.

Line No.	Title of Account (a)	Amount (b)
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40	Total	

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
LG&E and KU Services Company			
Schedule XX - Organization Chart			

1. Provide a graphical presentation of the relationships and inter relationships within the service company that identifies lines of authority and responsibility in the organization.

The following were officers of LKS as of December 31, 2018:

Paul W. Thompson - Chairman of the Board, Chief Executive Officer and President

Lonnie E. Bellar - Chief Operating Officer

D. Ralph Bowling - Vice President, Power Production

Thomas A. Jessee - Vice President, Transmission

John P. Malloy - Vice President, Gas Distribution

Elizabeth J. McFarland - Vice President, Customer Services

David S. Sinclair - Vice President, Energy Supply and Analysis

Ronald Scott Straight - Vice President, Project Engineering

John K. Wolfe - Vice President, Electric Distribution

Kent W. Blake - Chief Financial Officer

Daniel K. Arbough - Treasurer

Robert M. Conroy - Vice President, State Regulation and Rates

Christopher M. Garrett - Controller

Eric Slavinsky - Chief Information Officer

Gregory J. Meiman - Vice President, Human Resources

John R. Crockett III - General Counsel, Chief Compliance Officer and Corporate Secretary

David J. Freibert - Vice President, External Affairs

Mary C. Whelan - Vice President, Communications

Angie M. Evans - Vice President, Corporate Responsibility and Community Affairs

Victor A. Staffieri, Chairman of the Board and Chief Executive Officer, announced his retirement, effective March 15, 2018.

Paul W. Thompson, President and Chief Operating Officer, was named Chairman of the Board, President and Chief Executive Officer, effective March 16, 2018.

Lonnie E. Bellar, Senior Vice President-Operations, was named Chief Operating Officer and a director, effective March 16, 2018.

Dorothy E. O'Brien, Vice President and Deputy General Counsel, Legal and Environmental Affairs was named Vice President and Deputy General Counsel, effective January 1, 2018 and announced her retirement, effective April 17, 2018. John R. Crockett III was named General Counsel, Chief Compliance Officer and Corporate Secretary, effective January 1, 2018.

Valerie L. Scott, Controller, was named Vice President, Accounting effective January 1, 2018 and announced her retirement, effective February 19, 2018. Christopher M. Garrett, Director of Rates was named Controller, effective January 1, 2018.

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
Schedule XX - Organization Chart			

Angie M. Evans, director of Corporate Responsibility and Community Affairs, was named Vice President, Corporate Responsibility and Community Affairs, effective March 26, 2018.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report
LG&E and KU Services Company			2018
Schedule XXI - Methods of Allocation			

1. Indicate the service department or function and the basis for allocation used when employees render services to more than one department or functional group. If a ratio, include the numerator and denominator.
2. Include any other allocation methods used to allocate costs.

Service Department or Function	Basis of Allocation
Customer Service	Number of Customers Ratio
Sales and Marketing	Number of Customers Ratio
Economic Development and Major Accounts	Number of Customers Ratio
Meter Reading Services	Number of Meters Ratio
Cash Remittance	Revenue Ratio
Billing Integrity	Number of Customers Ratio; Number of Meters Ratio
Energy Efficiency	Number of Customers Ratio
Smart Grid Strategy	Number of Customers Ratio
Field Services	Number of Meters Ratio
CCS Retail Business Readiness	Number of Customers Ratio
Project Engineering	Generation Ratio
System Laboratory	Total Utility Plant Assets Ratio
Generation	Total Utility Plant Assets Ratio
Generation Services and Safety	Total Utility Plant Assets Ratio; Total Utility Electric Plant Assets Ratio
Fuel Procurement	Contract Ratio; Generation Ratio
Project Development	Total Utility Plant Assets Ratio
Strategy, Reliability and Tariffs	Transmission Ratio
Operations and Construction	Transmission Ratio; Total Assets Ratio; Total Utility Plant Assets Ratio
Reliability and Compliance	Transmission Ratio
Energy Marketing	Generation Ratio
Market Forecasting	Generation Ratio
Load Forecasting	Generation Ratio
Generation Planning and Analysis	Generation Ratio
Network Trouble and Dispatch	Number of Customers Ratio
Electric Engineering	Total Assets Ratio
Distribution Asset Management	Number of Customers Ratio; Total Assets Ratio
Forestry	Total Assets Ratio
Substation Construction and Maintenance	Total Utility Plant Assets Ratio
Budgeting	Revenue, Total Assets and Number of Employees Ratio; Transmission Ratio; Generation Ratio; Number of Customers Ratio
Financial Planning	Revenue, Total Assets and Number of Employees Ratio
Accounting and Reporting	Revenue, Total Assets and Number of Employees Ratio
Property Accounting	Total Utility Plant Assets Ratio
Revenue Accounting	Revenue Ratio
Payroll	Number of Employees Ratio
Tax Accounting, Compliance and Reporting	Revenue, Total Assets and Number of Employees Ratio
Audit Services	Revenue, Total Assets and Number of Employees Ratio
Sarbanes-Oxley Compliance	Revenue, Total Assets and Number of Employees Ratio

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
Schedule XXI - Methods of Allocation			

Treasury and Corporate Finance	Revenue, Total Assets and Number of Employees Ratio
Risk Management	Total Utility Plant Assets Ratio
Credit Administration	Generation Ratio
Energy Marketing Trading Controls	Generation Ratio
Supply Chain	Non-Fuel Material and Services Expenditures Ratio; Network Users Ratio; Ultimate Users Ratio
Accounts Payable	Number of Transactions Ratio; Non-Fuel Material and Services Expenditures Ratio
IT Security	Corporate Information Security Ratio; Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio
IT Applications Development and Support	Network Users Ratio; Number of Employees Ratio; Number of Customers Ratio; Ultimate Users Ratio
IT Infrastructure and Operations	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio
IT Governance	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio
IT Business Services	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio
IT Major Projects	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio
Legal	Revenue, Total Assets and Number of Employees Ratio
Compliance	Number of Employees Ratio; Total Utility Plant Assets Ratio
Environmental Affairs	Electric Peak Load Ratio
Regulatory Affairs	Revenue Ratio
Government Affairs Management	Revenue Ratio
Internal Communications	Number of Employees Ratio
External and Brand Communications	Number of Customers Ratio; Revenue, Total Assets and Number of Employees Ratio
Public Affairs Management	Revenue, Total Assets and Number of Employees Ratio
Facilities and Buildings	Number of Customers Ratio; Number of Employees Ratio; Facilities Ratio
Security	Number of Employees Ratio
Production Mail	Number of Customers Ratio
Document	Number of Employees Ratio
Process Management and Performance	Number of Customers Ratio
Right-of-Way	Number of Customers Ratio
Transportation	Number of Employees Ratio; Vehicle Cost Allocation Ratio
HR Compensation	Number of Employees Ratio
HR Benefits	Number of Employees Ratio
Other HR Services	Number of Employees Ratio
Health and Safety	Number of Employees Ratio
Executive Management	Generation Ratio; Number of Customers Ratio; Network Users Ratio; Number of Employees Ratio; Revenue Ratio; Revenue, Total Assets and Number of Employees Ratio; Total Assets Ratio; Total Utility Plant Assets Ratio; Transmission Ratio

Name of Respondent	This Report is:	Resubmission Date	Year of Report
LG&E and KU Services Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2018
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Contract Ratio – Based on the sum of the physical amount (i.e. tons of coal, mmbtu of natural gas) of the contract for coal and natural gas fuel burned for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Corporate Information Security Ratio – This ratio allocates the cost of cyber security activities using an allocation consistent with the methodology used by third party insurers providing cyber security insurance to the organization. The methodology assigns a percentage of the premium based on the various risks (e.g., number of employees, the number of customers, etc.). The total of the percentages equals 100%. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Departmental Charge Ratio – A specific department ratio based upon various factors. The departmental charge ratio typically applies to indirectly attributable costs such as departmental administrative, support, and/or material and supply costs that benefit more than one affiliate and that require allocation using general measures of cost causation. Methods for assignment are department-specific depending on the type of service being performed and are documented and monitored by the Budget Coordinators for each department. The numerator and denominator vary by department. The ratio is based upon various factors such as labor hours, labor dollars, departmental or entity headcount, capital expenditures, operations and maintenance costs, retail energy sales, charitable contributions, generating plant sites, average allocation of direct reports, net book value of utility plant, total line of business assets, electric capital expenditures, substation assets and transformer assets. The departmental Charge Ratio will only be used with prior approval by the Controller when other applicable ratios would not result in the fair assignment of costs. These ratios are calculated on an annual basis. Any changes in these ratios will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in any of these ratios from that used in the prior year.

Electric Peak Load Ratio – Based on the sum of the monthly electric maximum system demands for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Facilities Ratio – Based on a two-tiered approach with one tier based on the number of employees by department or line of business and the other tier based on the applicable department or line of business ratio. The numerator for the number of employees is the number of employees by department or line of business at the facility and the denominator is the total employees at the facility. The numerator and denominator for the applicable department or line of business for the service provided as described in this document. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Generation Ratio – Based on the annual forecast of megawatt hours, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

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Network Users Ratio – Based on the number of IT network users at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate costs to the proper legal entity. The numerator for the first step of this ratio is the total number of network users for each specific company, and the denominator is the total number of network users for all companies in which an allocator is assigned (i.e. LG&E, KU, LKS and PPL). For the second step, the ratio of LKS network users, to total network users will then be allocated to the other companies (LG&E, KU, and LKC) based on each company's ratio of LKS labor hours to total LKS labor hours. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Non-Fuel Material and Services Expenditures – Based on non-fuel material and services expenditures, net of reimbursements, for the immediately preceding twelve consecutive calendar months. The numerator is equal to such expenditures for a specific entity and/or line-of-business as appropriate and the denominator is equal to such expenditures for all applicable entities. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Customers Ratio – Based on the number of retail electric and/or gas customers. This ratio will be determined based on the actual number of customers at the end of the previous calendar year. In some cases, the ratio may be calculated based on the type of customer class being served (i.e. Residential, Commercial or Industrial). The numerator is the total number of each Company's retail customers. The denominator is the total number of retail customers for both LG&E and KU. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Employees Ratio – Based on the number of employees benefiting from the performance of a service. This ratio will be determined based on actual counts of applicable employees at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate LKS employee costs to the proper legal entity. The numerator for the first step of this ratio is the total number of employees for each specific company, and the denominator is the total number of employees for all companies in which an allocator is assigned (i.e. LG&E, KU and LKS). For the second step, the ratio of LKS to total employees will then be allocated to the other companies (LG&E, KU and LKC) based on each company's ratio of labor dollars to total labor dollars. LKC has no employees, but non-utility related labor is charged to it. In some cases, the ratio may be calculated based on the number of employees at a specific location for the first step with the ratio of LKS to total employees being allocated based on labor hours of the employees at the specific location. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Meters Ratio – Based on the number or types of meters being utilized by customer classes within the system for the immediately preceding twelve consecutive calendar months. The numerator is equal to the number of meters for each utility and the denominator is equal to the total meters for KU and LG&E. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Transactions Ratio – Based on the number of transactions occurring in the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. The Controller's organization is responsible for maintaining and monitoring specific

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report
LG&E and KU Services Company			2018
Schedule XXI - Methods of Allocation			

product/service methodology documentation for actual transactions related to LKS billings. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Ownership Percentages – Based on the contractual ownership percentages of jointly-owned generating units, information technology, facilities and other capital projects. This ratio is updated as a result of a new jointly-owned capital projects and is based on the benefit to the respective company. The numerator is the specific company's forecasted usage. The denominator is the total forecasted usage of all respective companies.

Revenue Ratio – Based on the sum of the revenue for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Revenue, Total Assets and Number of Employees Ratio – Based on an average of the revenue, total assets and number of employees ratios. The numerator is the sum of Revenue Ratio, Total Assets Ratio and Number of Employees Ratio for the specific company. The denominator is three – the number of ratios being averaged. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Total Assets Ratio – Based on the total assets at year end for the preceding year. In the event of joint ownership of a specific asset, asset ownership percentages are utilized to assign costs. The numerator is the total assets for each specific company at the end of the preceding year. The denominator is the sum of total assets for each company in which an allocator is assigned (LG&E, KU and LKC). This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Total Utility Plant Assets Ratio – Based on the total utility plant assets at year end for the preceding year, the numerator of which is for an operating company and the denominator of which is for all operating companies. In the event of joint ownership of a specific asset, ownership percentages are utilized to assign costs. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Transmission Ratio –The Transmission Coordination Agreement (TCA) provides “the contractual basis for the coordinated planning, operation, and maintenance of the combined” LG&E and KU transmission system. Pursuant to the terms of the TCA, LG&E/KU “operate their transmission systems as a single control area.” The TCA establishes cost and revenue allocations between LG&E and KU. The Transmission Ratio is based upon Schedule A (Allocation of Operating Expenses of the Transmission System Operator) of the TCA. Transmission System Operator Company allocation percentages are calculated during June of each year to be effective July 1st of each year using the previous year's summation of the Transmission Peak Demands as found in FERC Form 1 for LG&E and KU, page 400 line 17(b).

Ultimate Users Ratio – Based on the number of ultimate users of an IT product or service (i.e., software, hardware, mobile devices, etc.) at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate costs to the proper legal entity. The numerator for the first step of this ratio is the total number of ultimate users for each specific company, and the denominator is the total number of ultimate users for all companies

Name of Respondent	This Report is:	Resubmission Date	Year of Report
LG&E and KU Services Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2018
Schedule XXI - Methods of Allocation			

in which an allocator is assigned (i.e. LG&E, KU, LKS and PPL). For the second step, the ratio of LKS ultimate users, to total ultimate users will then be allocated to the other companies (LG&E, KU, and LKC) based on each company's ratio of LKS labor hours to total LKS labor hours. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Vehicle Cost Allocation Ratio – Based on the costs associated with providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles. Such rates are applied based on the specific equipment employment and the measured usage of services by the various company entities. This ratio is calculated monthly based on the actual transportation charges from the previous month. The numerator is the department labor charged to a specific company. The denominator is the total labor costs for the specific department. The ratio is then multiplied by the total transportation costs to determine the amount charged to each company.

ENTITY CHANGES

1. LG&E Energy Marketing Inc. was merged into LG&E and KU Capital LLC on December 31, 2018.

THIS FILING IS

Item 1: An Initial (Original) Submission OR Resubmission No. _____

Form 60 Approved
OMB No. 1902-0215
Expires 05/31/2019



FERC FINANCIAL REPORT

FERC FORM No. 60: Annual Report of Centralized Service Companies

This report is mandatory under the Public Utility Holding Company Act of 2005, Section 1270, Section 309 of the Federal Power Act and 18 C.F.R. § 366.23. Failure to report may result in criminal fines, civil penalties, and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)

LG&E and KU Services Company

Year of Report

Dec 31, 2018

GENERAL INSTRUCTIONS FOR FILING FERC FORM NO. 60

I. Purpose

Form No. 60 is an annual regulatory support requirement under 18 CFR 369.1 for centralized service companies. The report is designed to collect financial information from centralized service companies subject to the jurisdiction of the Federal Energy Regulatory Commission. The report is considered to be a non-confidential public use form.

II. Who Must Submit

Unless the holding company system is exempted or granted a waiver by Commission rule or order pursuant to §§ 18 CFR 366.3 and 366.4 of this chapter, every centralized service company (see § 367.2) in a holding company system must prepare and file electronically with the Commission the FERC Form No. 60 then in effect pursuant to the General Instructions set out in this form.

III. How to Submit

Submit FERC Form No. 60 electronically through the Form No. 60 Submission Software. Retain one copy of each report for your files. For any resubmissions, submit the filing using the Form No. 60 Submission Software including a justification. Respondents must submit the Corporate Officer Certification electronically.

IV. When to Submit

Submit FERC Form No. 60 according to the filing date contained § 18 CFR 369.1 of the Commission's regulations.

V. Preparation

Prepare this report in conformity with the Uniform System of Accounts (18 CFR 367) (USof A). Interpret all accounting words and phrases in accordance with the USof A.

VI. Time Period

This report covers the entire calendar year.

VII. Whole Dollar Usage

Enter in whole numbers (dollars) only, except where otherwise noted. The amounts shown on all supporting pages must agree with the amounts entered on the statements that they support. When applying thresholds to determine significance for reporting purposes, use for balance sheet accounts the balances at the end of the current reporting period, and use for statement of income accounts the current year's amounts.

VIII. Accuratness

Complete each question fully and accurately, even if it has been answered in a previous report. Enter the word "None" where it truly and completely states the fact.

IX. Applicability

For any page(s) that is not applicable to the respondent, enter "NONE," or "Not Applicable" in column (c) on the List of Schedules, page 2.

BLANK

X. Date Format

Enter the month, day, and year for all dates. Use customary abbreviations. The "Resubmission Date" included in the header of each page is to be completed only for resubmissions (see III. above).

XI. Number Format

Generally, except for certain schedules, all numbers, whether they are expected to be debits or credits, must be reported as positive. Numbers having a sign that is different from the expected sign must be reported by use of a minus sign.

XII. Required Entries

Do not make references to reports of previous years or to other reports instead of required entries, except as specifically authorized.

XIII. Prior Year References

Wherever (schedule) pages refer to figures from a previous year, the figures reported must be based upon those shown by the report of the previous year, or an appropriate explanation given as to why the different figures were used.

XIV. Where to Send Comments on Public Reporting Burden

The public reporting burden for the Form No. 60 collection of information is estimated to average 75 hours per response, including

- the time for reviewing instructions, searching existing data sources,
- gathering and maintaining the data-needed, and
- completing and reviewing the collection of information.

Send comments regarding these burden estimates or any aspect of this collection of information, including suggestions for reducing burden, to:

Federal Energy Regulatory Commission, (Attention: Information Clearance Officer, CIO),
888 First Street NE,
Washington, DC 20426
or by email to DataClearance@ferc.gov

And to:

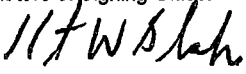
Office of Information and Regulatory Affairs,
Office of Management and Budget, Washington, DC 20503 (Attention: Desk Office for the Federal
Energy Regulatory Commission).
Comments to OMB should be submitted by email to: oir_submission@omb.eop.gov

No person shall be subject to any penalty if any collection of information does not display a valid control number (44 U.S.C. 3512(a)).

DEFINITIONS

I. Respondent -- The person, corporation, or other legal entity in whose behalf the report is made.

**FERC FORM NO. 60
ANNUAL REPORT FOR SERVICE COMPANIES**

IDENTIFICATION		
01 Exact Legal Name of Respondent LG&E and KU Services Company		02 Year of Report Dec 31, <u>2018</u>
03 Previous Name (If name changed during the year)		04 Date of Name Change //
05 Address of Principal Office at End of Year (Street, City, State, Zip Code) 220 West Main Street, Louisville, KY 40202	06 Name of Contact Person Vicki Romanko	
07 Title of Contact Person Manager Corporate Accounting	08 Address of Contact Person 220 West Main Street, Louisville, KY 40202	
09 Telephone Number of Contact Person (502) 627-4966	10 E-mail Address of Contact Person Vicki.Romanko@lge-ku.com	
11 This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	12 Resubmission Date (Month, Day, Year) //	
13 Date of Incorporation 06/02/2000	14 If Not Incorporated, Date of Organization //	
15 State or Sovereign Power Under Which Incorporated or Organized KENTUCKY		
16 Name of Principal Holding Company Under Which Reporting Company is Organized: PPL Corporation		
CORPORATE OFFICER CERTIFICATION		
The undersigned officer certifies that: I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts.		
17 Name of Signing Officer Kent W. Blake	19 Signature of Signing Officer 	20 Date Signed (Month, Day, Year) 04/29/2019
18 Title of Signing Officer Chief Financial Officer	Kent W. Blake	

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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List of Schedules and Accounts

1. Enter in Column (c) the terms "None" or "Not Applicable" as appropriate, where no information or amounts have been reported for certain pages.

Line No.	Description (a)	Page Reference (b)	Remarks (c)
1	Schedule I - Comparative Balance Sheet	101-102	
2	Schedule II - Service Company Property	103	
3	Schedule III - Accumulated Provision for Depreciation and Amortization of Service Company Property	104	
4	Schedule IV - Investments	105	
5	Schedule V - Accounts Receivable from Associate Companies	106	
6	Schedule VI - Fuel Stock Expenses Undistributed	107	None
7	Schedule VII - Stores Expense Undistributed	108	None
8	Schedule VIII - Miscellaneous Current and Accrued Assets	109	None
9	Schedule IX - Miscellaneous Deferred Debits	110	None
10	Schedule X - Research, Development, or Demonstration Expenditures	111	None
11	Schedule XI - Proprietary Capital	201	
12	Schedule XII - Long-Term Debt	202	None
13	Schedule XIII - Current and Accrued Liabilities	203	
14	Schedule XIV - Notes to Financial Statements	204	
15	Schedule XV - Comparative Income Statement	301-302	
16	Schedule XVI - Analysis of Charges for Service - Associate and Nonassociate Companies	303-306	
17	Schedule XVII - Analysis of Billing - Associate Companies (Account 457)	307	
18	Schedule XVIII - Analysis of Billing - Non-Associate Companies (Account 458)	308	None
19	Schedule XIX - Miscellaneous General Expenses - Account 930.2	307	None
20	Schedule XX - Organization Chart	401	
24	Schedule XXI - Methods of Allocation	402	

Schedule I - Comparative Balance Sheet

1. Give balance sheet of the Company as of December 31 of the current and prior year.

Line No.	Account Number (a)	Description (b)	Reference Page No. (c)	As of Dec 31 Current (d)	As of Dec 31 Prior (e)
1		Service Company Property			
2	101	Service Company Property	103	14,073,775	13,670,282
3	101.1	Property Under Capital Leases	103		
4	106	Completed Construction Not Classified			
5	107	Construction Work In Progress	103	648,372	954,571
6		Total Property (Total Of Lines 2-5)		14,722,147	14,624,853
7	108	Less: Accumulated Provision for Depreciation of Service Company Property	104	4,807,519	4,140,437
8	111	Less: Accumulated Provision for Amortization of Service Company Property			
9		Net Service Company Property (Total of Lines 6-8)		9,914,628	10,484,416
10		Investments			
11	123	Investment In Associate Companies	105		76,400,000
12	124	Other Investments	105		
13	128	Other Special Funds	105	84,845	
14		Total Investments (Total of Lines 11-13)		84,845	76,400,000
15		Current And Accrued Assets			
16	131	Cash			
17	134	Other Special Deposits			
18	135	Working Funds			
19	136	Temporary Cash Investments			
20	141	Notes Receivable			
21	142	Customer Accounts Receivable			
22	143	Accounts Receivable		87,994	85,086
23	144	Less: Accumulated Provision for Uncollectible Accounts			
24	146	Accounts Receivable From Associate Companies	106	240,928,250	154,551,679
25	152	Fuel Stock Expenses Undistributed	107		
26	154	Materials And Supplies			
27	163	Stores Expense Undistributed	108		
28	165	Prepayments		62,360	79,218
29	171	Interest And Dividends Receivable			
30	172	Rents Receivable			
31	173	Accrued Revenues			
32	174	Miscellaneous Current and Accrued Assets			
33	175	Derivative Instrument Assets	109		
34	176	Derivative Instrument Assets - Hedges			
35		Total Current and Accrued Assets (Total of Lines 16-34)		241,078,604	154,715,983
36		Deferred Debits			
37	181	Unamortized Debt Expense			
38	182.3	Other Regulatory Assets			
39	183	Preliminary Survey And Investigation Charges			
40	184	Clearing Accounts		157	
41	185	Temporary Facilities			
42	186	Miscellaneous Deferred Debits			
43	188	Research, Development, or Demonstration Expenditures	110		
44	189	Unamortized loss on reacquired debt	111		
45	190	Accumulated Deferred Income Taxes		75,919,477	87,753,270
46		Total Deferred Debits (Total of Lines 37-45)		75,919,634	87,753,270
47		TOTAL ASSETS AND OTHER DEBITS (TOTAL OF LINES 9, 14, 35 and 46)		326,997,711	329,353,669

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule I - Comparative Balance Sheet (continued)

Line No.	Account Number (a)	Description (b)	Reference Page No. (c)	As of Dec 31 Current (d)	As of Dec 31 Prior (e)
48		Proprietary Capital			
49	201	Common Stock Issued	201	100	100
50	204	Preferred Stock Issued	201		
51	211	Miscellaneous Paid-In-Capital	201	100,000,900	100,000,900
52	215	Appropriated Retained Earnings	201		
53	216	Unappropriated Retained Earnings	201	(9,344,260)	(32,545,952)
54	219	Accumulated Other Comprehensive Income	201	(129,482,601)	(125,914,252)
55		Total Proprietary Capital (Total of Lines 49-54)		(38,825,861)	(58,459,204)
56		Long-Term Debt			
57	223	Advances From Associate Companies	202		
58	224	Other Long-Term Debt	202		
59	225	Unamortized Premium on Long-Term Debt			
60	226	Less: Unamortized Discount on Long-Term Debt-Debit			
61		Total Long-Term Debt (Total of Lines 57-60)			
62		Other Non-current Liabilities			
63	227	Obligations Under Capital Leases-Non-current			
64	228.2	Accumulated Provision for Injuries and Damages			
65	228.3	Accumulated Provision For Pensions and Benefits		270,588,112	287,801,694
66	230	Asset Retirement Obligations			
		Total Other Non-current Liabilities (Total of Lines 63-66)		270,588,112	287,801,694
		Current and Accrued Liabilities			
69	231	Notes Payable			
70	232	Accounts Payable		48,686,445	51,270,280
71	233	Notes Payable to Associate Companies	203		
72	234	Accounts Payable to Associate Companies	203	3,247,595	2,754,825
73	236	Taxes Accrued		2,087,948	2,816,362
74	237	Interest Accrued			
75	241	Tax Collections Payable		398,082	289,691
76	242	Miscellaneous Current and Accrued Liabilities	203	24,176,495	22,196,049
77	243	Obligations Under Capital Leases - Current			
78	244	Derivative Instrument Liabilities			
79	245	Derivative Instrument Liabilities - Hedges			
80		Total Current and Accrued Liabilities (Total of Lines 69-79)		78,596,565	79,327,207
81		Deferred Credits			
82	253	Other Deferred Credits		16,715,431	20,531,642
83	254	Other Regulatory Liabilities			
84	255	Accumulated Deferred Investment Tax Credits			
85	257	Unamortized Gain on Reacquired Debt			
86	282	Accumulated deferred income taxes-Other property		(76,536)	152,330
87	283	Accumulated deferred income taxes-Other			
88		Total Deferred Credits (Total of Lines 82-87)		16,638,895	20,683,972
89		TOTAL LIABILITIES AND PROPRIETARY CAPITAL (TOTAL OF LINES 55, 61, 67, 80, AND 88)		326,997,711	329,353,669

Name of Respondent	This Report is:	Resubmission Date	Year of Report
LG&E and KU Services Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2018
FOOTNOTE DATA			

Schedule Page: 101 Line No.: 11 Column: e

\$76,400,000 is notes receivable from LKS' parent, LKE. This is recorded in Investment in Associate Companies (123).

Schedule Page: 101 Line No.: 24 Column: d

The balance includes \$64,000,000 of principal and \$303,324 of accrued interest on a note receivable from LKS' parent, LKE. Interest income on this note is retained by LKS and not allocated to the companies it serves.

Schedule Page: 101 Line No.: 24 Column: e

\$378,566 of interest income on notes receivable from LKS' parent, LKE, the amount was reported in the line for Accounts Receivable From Associate Companies (146). Interest income on this note is retained by LKS and not allocated to the companies it serves.

Schedule Page: 101 Line No.: 86 Column: d

Debit balance is due to greater tax basis versus book basis related to fixed assets, as accumulated book depreciation exceeds accumulated tax depreciation.

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Schedule II - Service Company Property

1. Provide an explanation of Other Changes recorded in Column (f) considered material in a footnote.
2. Describe each construction work in progress on lines 18 through 30 in Column (b).

Line No.	Acct # (a)	Title of Account (b)	Balance at Beginning of Year (c)	Additions (d)	Retirements or Sales (e)	Other Changes (f)	Balance at End of Year (g)
1	301	Organization					
2	303	Miscellaneous Intangible Plant	234,242	(45)			234,197
3	306	Leasehold Improvements					
4	389	Land and Land Rights					
5	390	Structures and Improvements	7,579,359	1,576,790			9,156,149
6	391	Office Furniture and Equipment	5,729,968	70,259	1,224,376		4,575,851
7	392	Transportation Equipment					
8	393	Stores equipment					
9	394	Tools, Shop and Garage Equipment					
10	395	Laboratory Equipment					
11	396	Power Operated Equipment					
12	397	Communications Equipment	126,713	(19,135)			107,578
13	398	Miscellaneous Equipment					
14	399	Other Tangible Property					
15	399.1	Asset Retirement Costs					
		Total Service Company Property (Total of Lines 1-15)	13,670,282	1,627,869	1,224,376		14,073,775
17	107	Construction Work in Progress:					
18		Structures, Improvements, Office Furniture/Equipment, and Other	954,571	1,321,670		(1,627,869)	648,372
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20							
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31		Total Account 107 (Total of Lines 18-30)	954,571	1,321,670		(1,627,869)	648,372
32		Total (Lines 16 and Line 31)	14,624,853	2,949,539		(1,627,869)	14,722,147

Name of Respondent	This Report is:	Resubmission Date	Year of Report
LG&E and KU Services Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2018
FOOTNOTE DATA			

Schedule Page: 103 Line No.: 18 Column: f

\$1,627,869 was transferred from Construction Work in Progress to Service Company Property.

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Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule III – Accumulated Provision for Depreciation and Amortization of Service Company Property

1. Provide an explanation of Other Charges in Column (f) considered material in a footnote.

Line No.	Account Number (a)	Description (b)	Balance at Beginning of Year (c)	Additions Charged To Account 403-403.1 404-405 (d)	Retirements (e)	Other Changes Additions (Deductions) (f)	Balance at Close of Year (g)
1	301	Organization					
2	303	Miscellaneous Intangible Plant	55,145	35,731			90,876
3	306	Leasehold Improvements					
4	389	Land and Land Rights					
5	390	Structures and Improvements	1,423,955	878,228		(136)	2,302,047
6	391	Office Furniture and Equipment	2,638,460	965,923	1,224,376		2,380,007
7	392	Transportation Equipment					
8	393	Stores equipment					
9	394	Tools, Shop and Garage Equipment					
10	395	Laboratory Equipment					
11	396	Power Operated Equipment					
12	397	Communications Equipment	22,877	11,712			34,589
13	398	Miscellaneous Equipment					
14	399	Other Tangible Property					
	399.1	Asset Retirement Costs					
		Total	4,140,437	1,891,594	1,224,376	(136)	4,807,519

Name of Respondent	This Report is:	Resubmission Date	Year of Report
LG&E and KU Services Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2018
FOOTNOTE DATA			

Schedule Page: 105 Line No.: 1 Column: c

See footnote data detail on Schedule Page: 101, Line No.:11, column: e.

Schedule V – Accounts Receivable from Associate Companies

1. List the accounts receivable from each associate company.
2. If the service company has provided accommodation or convenience payments for associate companies, provide in a separate footnote a listing of total payments for each associate company.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	146	Accounts Receivable From Associate Companies		
2		Associate Company:		
3		PPL Corporation		748,454
4		PPL Electric Utilities Corporation	40,357	8,041
5		PPL Strategic Development, LLC		2,679
6		LG&E and KU Energy LLC - Note Receivable	378,566	64,477,455
7		LG&E and KU Services Company	18,387,347	
8		LG&E and KU Capital LLC	84,158,018	121,143,518
9		FCD LLC	889	207
10		Kentucky Utilities Company	26,557,124	28,722,609
11		Louisville Gas and Electric Company	21,697,470	25,795,006
12		Western Kentucky Energy Corp.	12,089	238
13		LG&E and KU Energy LLC	3,319,819	30,043
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39		Analysis of convenience or accomodation payments - see footnote		
40	Total		154,551,679	240,928,250

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
LG&E and KU Services Company			
FOOTNOTE DATA			

Schedule Page: 106 Line No.: 7 Column: c

Intercompany receivable associated with push-down purchase accounting.

Schedule Page: 106 Line No.: 39 Column: b

Analysis of Convenience or Accomodation Payments:

Associate Company:	Amount
LG&E and KU Capital LLC	\$ 3,730,820
PPL Services Corporation	2,021,851
PPL Corporation	65,025
PPL Strategic Development, LLC	1,326
PPL Translink, Inc.	333
Louisville Gas and Electric Company	432,358,741
Kentucky Utilities Company	440,341,280
Western Kentucky Energy Corp.	10,231
FCD LLC	2,558
LG&E and KU Energy LLC	697,271
Total	\$ 879,229,436

Convenience payments resulted primarily from the following:	Amount
Capital Expenditures	\$ 45,967,471
Charitable Contributions	36,485
Equipment/Facilities	18,702,512
Fringe Benefits/Overheads	74,040,502
Materials and Fuels Purchases	669,478,485
Office and Administrative Services	31,189,049
Outside Services	39,814,932
Total	\$ 879,229,436

Schedule VI – Fuel Stock Expenses Undistributed

1. List the amount of labor in Column (c) and expenses in Column (d) incurred with respect to fuel stock expenses during the year and indicate amount attributable to each associate company.
 2. In a separate footnote, describe in a narrative the fuel functions performed by the service company.

Line No.	Account Number (a)	Title of Account (b)	Labor (c)	Expenses (d)	Total (e)
1	152	Fuel Stock Expenses Undistributed			
2		Associate Company:			
3				0	
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39					
40	Total				

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
FOOTNOTE DATA			

Schedule Page: 107 Line No.: 3 Column: d

Fuel functions provided are primarily accounted for as convenience payments for fuel contract settlements or services provided by LKS as an administrative agent, paying agent or other representative capacity, for the respective affiliate(s). The following fuel related services are provided by LKS and charged to the respective FERC accounts of the affiliates:

- Procurement of fuel, scrubber reagent, ammonia, and SO3 mitigation chemicals
- Transportation service to move these commodities from the loading point to the power plant
- Monitoring of quality, inventory level, and forecasted requirements
- Making purchases as needed on a timely basis
- Preparing bid solicitation for coal, and other commodities, as necessary, and evaluating those bids
- Negotiating and writing the contracts and purchase orders
- Contract Administration

Schedule VII – Stores Expense Undistributed

1. List the amount of labor in Column (c) and expenses in Column (d) incurred with respect to stores expense during the year and indicate amount attributable to each associate company.

Line No.	Account Number (a)	Title of Account (b)	Labor (c)	Expenses (d)	Total (e)
1	163	Stores Expense Undistributed			
2		Associate Company:			
3					
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39					
40	Total				

Name of Respondent
 LG&E and KU Services Company

This Report Is:
 (1) An Original
 (2) A Resubmission

Resubmission Date
 (Mo, Da, Yr)
 / /

Year/Period of Report
 Dec 31, 2018

Schedule VIII - Miscellaneous Current and Accrued Assets

1. Provide detail of items in this account. Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	174	Miscellaneous Current and Accrued Assets		
2		Item List:		
3				
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40	Total			

Schedule IX - Miscellaneous Deferred Debits

1. Provide detail of items in this account. Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	186	Miscellaneous Deferred Debits		
2		Items List:		
3				
4				
5				
6				
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39				
40	Total			

Schedule X - Research, Development, or Demonstration Expenditures

1. Describe each material research, development, or demonstration project that incurred costs by the service corporation during the year. Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Amount (c)
1	188	Research, Development, or Demonstration Expenditures	
2		Project List:	
3			
4			
5			
6			
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38			
39			
40	Total		

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule XI - Proprietary Capital

1. For miscellaneous paid-in capital (Account 211) and appropriate retained earnings (Account 215), classify amounts in each account, with a brief explanation, disclosing the general nature of transactions which give rise to the reported amounts.

2. For the unappropriated retained earnings (Account 216), in a footnote, give particulars concerning net income or (loss) during the year, distinguishing between compensation for the use of capital owed or net loss remaining from servicing nonassociates per the General Instructions of the Uniform System of Accounts. For dividends paid during the year in cash or otherwise, provide rate percentages, amount of dividend, date declared and date paid.

Line No.	Account Number (a)	Title of Account (b)	Description (c)	Amount (d)
1	201	Common Stock Issued	Number of Shares Authorized	1,000
2			Par or Stated Value per Share	
3			Outstanding Number of Shares	100
4			Close of Period Amount	100
5		Preferred Stock Issued	Number of Shares Authorized	
6			Par or Stated Value per Share	
7			Outstanding Number of Shares	
8			Close of Period Amount	
9	211	Miscellaneous Paid-In Capital		100,000,900
10	215	Appropriated Retained Earnings		
11	219	Accumulated Other Comprehensive Income		(129,482,601)
12	216	Unappropriated Retained Earnings	Balance at Beginning of Year	(32,545,952)
13			Net Income or (Loss)	(2,754,964)
14			Dividend Paid	25,956,656
15			Balance at Close of Year	(9,344,260)

Name of Respondent LG&E and KU Services Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
FOOTNOTE DATA			

Schedule Page: 201 Line No.: 14 Column: d

In 2018, LKS adopted ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income resulting from the Tax Cuts and Jobs Act, and reclassified \$25,956,656 from account 219, Other Comprehensive Income, to account 439, Adjustments to Retained Earnings. FERC approved the use of account 439, Adjustments to Retained Earnings, in Docket No. AC18-59-000 on November 15, 2018. No dividends were paid during 2018.

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Schedule XII – Long Term Debt

1. For the advances from associate companies (Account 223), describe in a footnote the advances on notes and advances on open accounts. Names of associate companies from which advances were received shall be shown under the class and series of obligation in Column (c).
2. For the deductions in Column (h), please give an explanation in a footnote.
3. For other long-term debt (Account 224), list the name of the creditor company or organization in Column (b).

Line No.	Account Number	Title of Account	Term of Obligation Class & Series of Obligation	Date of Maturity	Interest Rate	Amount Authorized	Balance at Beginning of Year	Additions Deductions	Balance at Close of Year
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	223	Advances from Associate Companies							
2		Associate Company:							
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13		TOTAL							

14	224	Other Long-Term Debt							
15		List Creditor:							
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28		TOTAL							

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule XIII – Current and Accrued Liabilities

1. Provide the balance of notes and accounts payable to each associate company (Accounts 233 and 234).
2. Give description and amount of miscellaneous current and accrued liabilities (Account 242). Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	233	Notes Payable to Associates Companies		
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23				
24	234	Accounts Payable to Associate Companies		
25		PPL Corporation	221,213	596,551
26		PPL EU Services Corporation		860,446
27		PPL Services Corporation	2,533,612	1,790,598
28				
29				
30				
31				
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41	242	Miscellaneous Current and Accrued Liabilities		
42		Miscellaneous Liability - Vested Vacation	11,653,175	11,910,811
43		Accrued Short Term Incentive	2,311,073	3,622,016
44		Pension Payable SERP Current	4,278,334	4,253,280
45		Retirement Income Liability	2,371,119	2,766,558
46		Incurred But Not Paid (IBNP) Medical and Dental Reserve	1,582,347	1,623,831
47				
48				
49				
50		(Total)	24,950,873	27,424,091

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report
LG&E and KU Services Company			2018
Schedule XIV- Notes to Financial Statements			

1. Use the space below for important notes regarding the financial statements or any account thereof.
2. Furnish particulars as to any significant contingent assets or liabilities existing at the end of the year.
3. Furnish particulars as to any significant increase in services rendered or expenses incurred during the year.
4. Furnish particulars as to any amounts recorded in Account 434, Extraordinary Income, or Account 435, Extraordinary Deductions.
5. Notes relating to financial statements shown elsewhere in this report may be indicated here by reference.
6. Describe the annual statement supplied to each associate service company in support of the amount of interest on borrowed capital and compensation for use of capital billed during the calendar year. State the basis for billing of interest to each associate company. If a ratio, describe in detail how ratio is computed. If more than one ratio explain the calculation. Report the amount of interest borrowed and/or compensation for use of capital billed to each associate company.

Note 1 – Organization of LG&E and KU Services Company

LG&E and KU Services Company (“LKS” or the “Company”), a Kentucky corporation, is a wholly-owned subsidiary of LG&E and KU Energy LLC (“LKE”) and a centralized service company under the Public Utility Holding Company Act of 2005 (“PUHCA 2005”). LKE, in turn, is a wholly-owned subsidiary of PPL Corporation (“PPL”) and LKS became an indirect, wholly-owned subsidiary of PPL when PPL acquired all the limited liability company interests of LKE from E.ON US Investments Corp. on November 1, 2010. On December 1, 2010, PPL and certain subsidiaries, including LKE, filed a notification of holding company status with the Federal Energy Regulatory Commission (“FERC”) under PUHCA 2005. LKE had previously been party to such a notification filed on June 15, 2006 by E.ON AG, its former parent. LKS originally was authorized to conduct business as a service company for E.ON U.S. LLC (formerly LG&E Energy LLC) and its various subsidiaries and affiliates by order of the Securities and Exchange Commission dated December 6, 2000, and commenced operations January 1, 2001.

LKS provides certain services to affiliated entities, including LKE, LG&E and KU Capital LLC (“LKC”), LG&E Energy Marketing Inc. (“LEM”), Louisville Gas and Electric Company (“LG&E”), Kentucky Utilities Company (“KU”), Western Kentucky Energy Corp., FCD LLC, PPL Corporation, PPL Services Corporation, and PPL Electric Utilities Corporation, at cost. LKS is organized along functional lines to accomplish its purpose of providing management, administrative, and technical services.

Note 2 - Summary of Significant Accounting Policies

LKS follows the FERC Uniform System of Accounts for Centralized Service Companies Subject to the Provisions of PUHCA 2005. The accompanying financial statements were prepared in accordance with the accounting requirements set forth in the Uniform System of Accounts and published accounting releases of the FERC, which is a comprehensive basis of accounting other than GAAP.

General. Dollars within these footnotes are in millions, unless otherwise noted.

Presentation

The accompanying financial statements are prepared on the regulatory basis of accounting in accordance with the requirements of the FERC, which is a comprehensive basis of accounting other than GAAP. The significant differences between GAAP and FERC reporting are as follows:

Reporting Classifications	FERC reporting	GAAP reporting
Deferred taxes	Reported gross on the Balance Sheet (a deferred asset and a deferred liability are recorded).	Reported as a net asset or net liability.

Name of Respondent LG&E and KU Services Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
Schedule XIV- Notes to Financial Statements			

Reporting Classifications	FERC reporting	GAAP reporting
Income taxes	Income taxes, deferred taxes and investment tax credits are reported on separate lines on the Income Statement.	Income taxes, deferred taxes and investment tax credits are netted on a single line on the Income Statement.
Pension and OPEB non-service costs eligible for capitalization	Reported in PP&E.	Reported as a regulatory asset or regulatory liability
Utility plant acquired before November 1, 2010	Reported at original cost.	Restated to net fair value as of November 1, 2010.
Amounts presented within the Balance Sheet, Income Statement and Statement of Retained Earnings.	Reported without purchase accounting adjustments.	Reported with purchase accounting adjustments.

Property. Property, plant and equipment includes property that is in use and under construction, and is reported at cost. PP&E was not recorded at fair value as of the PPL acquisition for FERC-reporting purposes.

Depreciation and Amortization. Depreciation is computed on a straight-line basis. Office furniture is depreciated over 30 years and personal computers are depreciated over 3 years. Leasehold improvements are depreciated over the life of the lease.

Tax Cuts and Jobs Act (TCJA). The Company 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 and deductible executive compensation, both of which were based on the interpretation and application of various provisions of the TCJA.

LKS's federal income tax return is included in a United States consolidated income tax return filed by LKS's parent, PPL. 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 the 2017 Form 10-K. Accordingly, LKS updated the provisional amounts and now consider them to be complete. In addition, LKS 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.

Effective October 1, 2018, LKS prospectively adopted 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.

The adoption of this guidance resulted in LKS reclassifying \$26 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.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report
LG&E and KU Services Company			2018
Schedule XIV- Notes to Financial Statements			

Kentucky State Tax Reform (HB 487). 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. LKS recognized a deferred tax charge of \$3 million in the second quarter of 2018 associated with the remeasurement of accumulated deferred income tax balances.

Income Taxes. Significant management judgment is required in developing the Company's provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken in tax returns and valuation allowances on deferred tax assets.

Significant management judgment is also required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Company uses a two-step process to evaluate tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization, upon settlement, that exceeds 50%. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Company in future periods. See Note 5, Income Taxes.

Accumulated Deferred Income Taxes. Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards. See Note 5, Income Taxes.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 - Related Party Transactions

Provisions of Services

LKS engages in transactions in the normal course of business with other LKE subsidiaries and PPL subsidiaries. These transactions are primarily composed of services received and/or rendered including contracting with third party vendors for goods and services. These services are priced at cost which represents market.

LKS provides the subsidiaries of LKE and PPL with a variety of centralized administrative, management and support services. Charges for these services include labor, overheads and other expenses of LKS employees performing services for the subsidiaries of LKE and PPL and vouchers paid by LKS on behalf of the subsidiaries of LKE and PPL. The cost of these services is directly charged or, for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the ratios discussed in Methods of Allocations on pages 402.1 – 402.5.

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Intercompany billings from LKS are listed on page 307, Analysis of Billing – Associate Companies (Account 457). These billings do not include convenience payments which are shown as a footnote to page 106, line 39, column b.

Intercompany billings are settled monthly, accordingly there is no interest or other compensation charged for the use of capital.

Note 4 - Pension and Other Postretirement Benefit Plans

Although LKS does not directly sponsor any defined benefit plans, it is allocated a portion of the funded status and costs of plans sponsored by LKE based on its participation in those plans, which management believes are reasonable. The defined benefit pension plan of LKE and its subsidiaries was closed to new employees hired after December 31, 2005. Employees hired after December 31, 2005 receive additional company contributions above the standard matching contributions to their savings plans.

The majority of LKS employees are eligible for certain health care and life insurance benefits upon retirement through a contributory plan. Postretirement health benefits may be paid from a 401(h) account established as part of the LKE plan within the PPL Services Corporation Master Trust, funded VEBA trusts, and company funds.

LKS allocates its pension and other postretirement costs to affiliates. LKS's allocated pension benefit costs charged to expense or regulatory assets, excluding amounts charged to construction and other balance sheet accounts, for pension benefits were \$23 million in both 2018 and 2017, and amounts charged to construction work in progress and other balance sheet accounts were \$5 million in both 2018 and 2017. Net periodic defined benefits costs charged to expense, excluding amounts charged to construction and other balance sheet accounts, for other postretirement benefits were less than a million and \$1 million in 2018 and 2017.

The actuarially determined obligations of current active employees and retired employees of LKS are used as a basis to allocate total plan activity, including active and retiree costs and obligations. LKS's allocated share of the funded status of the pension plans resulted in a liability of \$273 million and \$287 million at December 31, 2018 and 2017. LKS's allocated share of other postretirement benefits resulted in no liability at December 31, 2018 and a liability of \$3 million at December 31, 2017.

Plan Assets - Pension Plans

The pension plan sponsored by LKE is invested in the PPL Services Corporation Master Trust ("the Master Trust") that also includes a 401(h) account that is restricted for certain other postretirement benefit obligations of LKE. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with the Company's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the Employee Benefit Plan Board (EBPB), external investment managers, investment advisor, trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

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The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio, and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines, as of the end of 2018, are presented below.

The asset allocation for the trust and the target allocation by portfolio, at December 31, are as follows:

	Percentage of Trust Assets	Target Asset Allocation (a)
	2018 (a)	2018
Growth Portfolio	55%	55%
Equity securities	30%	
Debt securities (b)	15%	
Alternative investments	10%	
Immunizing Portfolio	43%	43%
Debt securities (b)	39%	
Derivatives	4%	
Liquidity Portfolio	2%	2%
Total	100%	100%

	Percentage of Trust Assets
	2017
Growth Portfolio	56%
Equity securities	32%
Debt securities (b)	14%
Alternative investments	10%
Immunizing Portfolio	43%
Debt securities (b)	39%
Derivatives	4%
Liquidity Portfolio	1%
Total	100%

(a) Allocations exclude consideration of a group annuity contract held by the LG&E and KU Retirement Plan.

(b) Includes commingled debt funds, which the Company treats as debt securities for asset allocation purposes.

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LKE has pension plans, including LG&E's plan, whose assets are invested solely in the Master Trust, which is fully disclosed below. The fair value of the plans' assets of \$1.3 billion and \$1.4 billion at December 31, 2018 and 2017 represents an interest of approximately 42% and 40% in the Master Trust.

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

DECEMBER 31, 2018

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$ 220	\$ 220	\$ -	\$ -
Equity securities				
U.S.:				
U.S. Equity	159	159	-	-
U.S. Equity fund measured at NAV (a)	340	-	-	-
International equity fund at NAV (a)	466	-	-	-
Commingled debt measured at NAV (a)	543	-	-	-
Debt securities:				
U.S. Treasury and U.S. government sponsored agency	212	212	-	-
Corporate	899	-	874	25
Other	17	-	17	-
Alternative investments:				
Real estate measured at NAV (a)	90	-	-	-
Private equity measured at NAV (a)	65	-	-	-
Hedge funds measured at NAV (a)	175	-	-	-
Derivatives	33	-	33	-
Insurance Contracts	21	-	-	21
PPL Services Corporation Master Trust assets, at fair value	<u>\$ 3,240</u>	<u>\$ 591</u>	<u>\$ 924</u>	<u>\$ 46</u>
Receivables and payables, net (b)	(2)	-	-	-
401(h) account restricted for other postretirement benefit obligations	(129)	-	-	-
Total PPL Services Corporation Master Trust pension assets	<u>\$ 3,109</u>			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables, net represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

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DECEMBER 31, 2017

	Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3
Cash and Cash Equivalents	\$ 301	\$ 301	\$ -	\$ -
Equity securities				
U.S.:				
U.S. Equity	229	229	-	-
U.S. Equity fund measured at NAV (a)	364	-	-	-
International equity fund at NAV (a)	538	-	-	-
Commingled debt measured at NAV (a)	611	-	-	-
Debt securities:				
U.S. Treasury and U.S. government sponsored agency	186	186	-	-
Corporate	883	-	870	13
Other	10	-	10	-
Alternative investments:				
Real estate measured at NAV (a)	109	-	-	-
Private equity measured at NAV (a)	80	-	-	-
Hedge funds measured at NAV (a)	175	-	-	-
Derivatives:				
Interest rate swaps and swaptions	50	-	50	-
Other	1	-	1	-
Insurance Contracts	24	-	-	24
PPL Services Corporation Master Trust assets, at fair value	<u>\$ 3,561</u>	<u>\$ 716</u>	<u>\$ 931</u>	<u>\$ 37</u>
Receivables and payables, net (b)	72	-	-	-
401(h) account restricted for other postretirement benefit obligations	<u>(145)</u>	-	-	-
Total PPL Services Corporation Master Trust pension assets	<u>\$ 3,488</u>			

(a) In accordance with accounting guidance certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

(b) Receivables and payables, net represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

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A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2018 is as follows:

	Corporate Debt	Insurance Contracts	Total
Balance at beginning of period	\$ 13	\$ 24	\$ 37
Actual return on plan assets			
Relating to assets still held at the reporting date		1	(1)
Relating to assets sold during period	(2) 3	-	3
Purchases, sales and settlements	11	(4)	7
Balance at end of period	\$ 25	\$ 21	\$ 46

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2017 is as follows:

	Corporate Debt	Insurance Contracts	Total
Balance at beginning of period	\$ 13	\$ 27	\$ 40
Actual return on plan assets	-	-	-
Relating to assets still held at the reporting date	-	1	1
Purchases, sales and settlements	-	(4)	(4)
Balance at end of period	\$ 13	\$ 24	\$ 37

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as

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payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in core U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The strategy is focused on properties with high occupancy rates with quality tenants. This results in a focus on high income and stable cash flows with appreciation being a secondary factor. Core real estate generally has a lower degree of leverage when compared with more speculative real estate investing strategies. The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. The partnerships have limited lives of at least 10 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. The Master Trust has unfunded commitments of \$71 million that may be required during the lives of the partnerships. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in hedge funds represent investments in a fund of hedge funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the fund of hedge funds include long/short equity, tactical trading, event driven, and relative value. Shares may be redeemed with 45 days prior written notice. The fund is subject to short term lockups and other restrictions. The fair value for the fund has been estimated using the net asset value per share.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in treasury futures, total return swaps, interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on quoted prices, changes in the value of the underlying exposure or on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Insurance contracts, classified as Level 3, represent an investment in an immediate participation guaranteed group annuity contract. The fair value is based on contract value, which represents cost plus interest income less distributions for benefit payments and administrative expenses.

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Plan Assets – Other Postretirement Benefit Plans

LKE's other postretirement benefit plan is invested primarily in a 401(h) account, as disclosed in the PPL Services Corporation Master Trust, with insignificant amounts invested in money market funds within VEBA trusts for liquidity.

Expected Cash Flows - Defined Benefit Plans

LKS made contributions to the defined benefit pension plan of \$5 million in 2018 and no contributions were made in 2017. Contributions to offset Supplemental Executive Retirement Plan ("SERP") payments totaled \$4 million and \$3 million in 2018 and 2017. LKE's defined benefit pension plan has the option to utilize an available prior year credit balance to meet current and future contribution requirements. LKS contributed \$19 million to LKE's pension plan in January 2019. Contributions to offset SERP payments would cause LKS to contribute \$4 million in 2019. No additional contributions are expected in 2019.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the LKE plans for LKS retirees.

Note 5 - Income Taxes

LKS's federal income tax return is included in a United States consolidated income tax return filed by LKS's parent, PPL. Each subsidiary of the consolidated tax group calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. The tax years for 2013 and prior for Federal and State are no longer subject to examination.

Components of income tax expense are shown in the table below for the year ended December 31:

	<u>2018</u>	<u>2017</u>
Current – federal	\$ 1	\$ 5
Current – state	-	1
Deferred – federal – net (a)	-	36
Deferred – state – net (b)	4	(1)
Total income tax expense	<u>\$ 5</u>	<u>\$ 41</u>

(a) Due to the enactment of the TCJA in 2017, LKS recorded a \$40 million deferred tax expense related to the impact of the U.S. federal corporate income tax rate reduction from 35% to 21% on deferred tax assets and liabilities.

(b) Due to the enactment of HB 487, LKS recorded a \$3 million deferred tax expense related to the impact of the Kentucky corporate income tax rate reduction from 6% to 5% on deferred tax assets and liabilities

Deferred tax assets and liabilities are summarized below as of December 31:

	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Pensions and similar obligations	\$ 62	\$ 72
Liabilities and other	14	16
Total Deferred income tax assets	<u>\$ 76</u>	<u>\$ 88</u>

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Note 6 - Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income consisted of the following:

(in millions)	Funded Status of Pension and Postretirement Plans		
	<u>Pretax</u>	<u>Tax</u>	<u>Net</u>
Balance at December 31, 2016	\$ (182)	\$ 71	\$ (111)
Change in funded status of pension and postretirement plans	(23)	8	(15)
Balance at December 31, 2017	\$ (205)	\$ 79	\$ (126)
Change in funded status of pension and post retirement plans	30	(34)	(4)
Balance at December 31, 2018	\$ (175)	\$ 45	\$ (130)

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Schedule XV- Comparative Income Statement

Line No.	Account Number (a)	Title of Account (b)	Current Year (c)	Prior Year (d)
1		SERVICE COMPANY OPERATING REVENUES		
2	400	Service Company Operating Revenues	333,482,527	373,074,715
3		SERVICE COMPANY OPERATING EXPENSES		
4	401	Operation Expenses	224,176,021	230,844,243
5	402	Maintenance Expenses	6,496,538	8,114,445
6	403	Depreciation Expenses	1,891,594	1,902,344
7	403.1	Depreciation Expense for Asset Retirement Costs		
8	404	Amortization of Limited-Term Property		
9	405	Amortization of Other Property		
10	407.3	Regulatory Debits		
11	407.4	Regulatory Credits		
12	408.1	Taxes Other Than Income Taxes, Operating Income	11,809,723	12,486,446
13	409.1	Income Taxes, Operating Income	830,093	6,816,520
14	410.1	Provision for Deferred Income Taxes, Operating Income	11,523,916	53,874,663
15	411.1	Provision for Deferred Income Taxes – Credit , Operating Income	(7,381,008)	(18,818,835)
16	411.4	Investment Tax Credit, Service Company Property		
17	411.6	Gains from Disposition of Service Company Plant		
	411.7	Losses from Disposition of Service Company Plant		
19	411.10	Accretion Expense		
20	412	Costs and Expenses of Construction or Other Services	86,189,302	115,946,227
21	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work		2,628
22		TOTAL SERVICE COMPANY OPERATING EXPENSES (Total of Lines 4-21)	335,536,179	411,168,681
23		NET SERVICE COMPANY OPERATING INCOME (Total of Lines 2 less 22)	(2,053,652)	(38,093,966)
24		OTHER INCOME		
25	418.1	Equity in Earnings of Subsidiary Companies		
26	419	Interest and Dividend Income	1,984,891	1,517,947
27	419.1	Allowance for Other Funds Used During Construction		
28	421	Miscellaneous Income or Loss		2,590
29	421.1	Gain on Disposition of Property		
30		TOTAL OTHER INCOME (Total of Lines 25-29)	1,984,891	1,520,537
31		OTHER INCOME DEDUCTIONS		
32	421.2	Loss on Disposition of Property		
33	425	Miscellaneous Amortization		
34	426.1	Donations		
35	426.2	Life Insurance		
36	426.3	Penalties		
37	426.4	Expenditures for Certain Civic, Political and Related Activities	1,077,491	1,056,821
	426.5	Other Deductions	1,841,859	2,724,150
39		TOTAL OTHER INCOME DEDUCTIONS (Total of Lines 32-38)	2,919,350	3,780,971
40		TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS		

Schedule XV- Comparative Income Statement (continued)

Line No.	Account Number (a)	Title of Account (b)	Current Year (c)	Prior Year (d)
41	408.2	Taxes Other Than Income Taxes, Other Income and Deductions		
42	409.2	Income Taxes, Other Income and Deductions	(233,147)	(880,331)
43	410.2	Provision for Deferred Income Taxes, Other Income and Deductions		
44	411.2	Provision for Deferred Income Taxes – Credit, Other Income and Deductions		
45	411.5	Investment Tax Credit, Other Income Deductions		
46		TOTAL TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS (Total of Lines 41-45)	(233,147)	(880,331)
47		INTEREST CHARGES		
48	427	Interest on Long-Term Debt		
49	428	Amortization of Debt Discount and Expense		
50	429	(less) Amortization of Premium on Debt- Credit		
51	430	Interest on Debt to Associate Companies		
52	431	Other Interest Expense		
53	432	(less) Allowance for Borrowed Funds Used During Construction-Credit		
54		TOTAL INTEREST CHARGES (Total of Lines 48-53)		
55		NET INCOME BEFORE EXTRAORDINARY ITEMS (Total of Lines 23, 30, minus 39, 46, and 54)	(2,754,964)	(39,474,069)
56		EXTRAORDINARY ITEMS		
57	434	Extraordinary Income		
	435	(less) Extraordinary Deductions		
59		Net Extraordinary Items (Line 57 less Line 58)		
60	409.4	(less) Income Taxes, Extraordinary		
61		Extraordinary Items After Taxes (Line 59 less Line 60)		
62		NET INCOME OR LOSS/COST OF SERVICE (Total of Lines 55-61)	(2,754,964)	(39,474,069)

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
1	403-403.1	Depreciation Expense		1,891,594	1,891,594
2	404-405	Amortization Expense			
3	407.3-407.4	Regulatory Debits/Credits – Net			
4	408.1-408.2	Taxes Other Than Income Taxes	1,020,094	10,789,628	11,809,722
5	409.1-409.3	Income Taxes			
6	410.1-411.2	Provision for Deferred Taxes			
7	411.1-411.2	Provision for Deferred Taxes – Credit			
8	411.6	Gain from Disposition of Service Company Plant			
9	411.7	Losses from Disposition of Service Company Plant			
10	411.4-411.5	Investment Tax Credit Adjustment			
11	411.10	Accretion Expense			
12	412	Costs and Expenses of Construction or Other Services	51,891,213	34,298,090	86,189,303
13	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work for Associated Companies			
14	418	Non-operating Rental Income			
15	418.1	Equity in Earnings of Subsidiary Companies			
16	419	Interest and Dividend Income			
17	419.1	Allowance for Other Funds Used During Construction			
	421	Miscellaneous Income or Loss			
	421.1	Gain on Disposition of Property			
20	421.2	Loss on Disposition Of Property			
21	425	Miscellaneous Amortization			
22	426.1	Donations			
23	426.2	Life Insurance			
24	426.3	Penalties			
25	426.4	Expenditures for Certain Civic, Political and Related Activities	9,634	1,067,855	1,077,489
26	426.5	Other Deductions	1,094,857	747,002	1,841,859
27	427	Interest On Long-Term Debt			
28	428	Amortization of Debt Discount and Expense			
29	429	Amortization of Premium on Debt – Credit			
30	430	Interest on Debt to Associate Companies			
31	431	Other Interest Expense			
32	432	Allowance for Borrowed Funds Used During Construction			
33	500-509	Total Steam Power Generation Operation Expenses	4,344,518	10,862,931	15,207,449
34	510-515	Total Steam Power Generation Maintenance Expenses	730,030	1,456,272	2,186,302

Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
35	517-525	Total Nuclear Power Generation Operation Expenses						
36	528-532	Total Nuclear Power Generation Maintenance Expenses						
37	535-540.1	Total Hydraulic Power Generation Operation Expenses	714		714			
38	541-545.1	Total Hydraulic Power Generation Maintenance Expenses	2,511		2,511			
39	546-550.1	Total Other Power Generation Operation Expenses	144,282	(1,199)	143,083			
40	551-554.1	Total Other Power Generation Maintenance Expenses	25,829		25,829			
41	555-557	Total Other Power Supply Operation Expenses	20,013	2,958,443	2,978,456			
42	560	Operation Supervision and Engineering	875	2,373,319	2,374,194			
43	561.1	Load Dispatch-Reliability		912,636	912,636			
44	561.2	Load Dispatch-Monitor and Operate Transmission System	1,663,614	1,368,791	3,032,405			
45	561.3	Load Dispatch-Transmission Service and Scheduling		1,240,324	1,240,324			
46	561.4	Scheduling, System Control and Dispatch Services						
47	561.5	Reliability Planning and Standards Development		861,476	861,476			
48	561.6	Transmission Service Studies	6,271		6,271			
	561.7	Generation Interconnection Studies	2,476		2,476			
50	561.8	Reliability Planning and Standards Development Services						
51	562	Station Expenses (Major Only)	232,887		232,887			
52	563	Overhead Line Expenses (Major Only)	82,891		82,891			
53	564	Underground Line Expenses (Major Only)						
54	565	Transmission of Electricity by Others (Major Only)						
55	566	Miscellaneous Transmission Expenses (Major Only)	147,924	1,071,945	1,219,869			
56	567	Rents						
57	567.1	Operation Supplies and Expenses (Nonmajor Only)						
58		Total Transmission Operation Expenses	2,136,938	7,828,491	9,965,429			
59	568	Maintenance Supervision and Engineering (Major Only)						
60	569	Maintenance of Structures (Major Only)						
61	569.1	Maintenance of Computer Hardware						
62	569.2	Maintenance of Computer Software						
63	569.3	Maintenance of Communication Equipment						
64	569.4	Maintenance of Miscellaneous Regional Transmission Plant						
65	570	Maintenance of Station Equipment (Major Only)	329,900	514,876	844,776			
66	571	Maintenance of Overhead Lines (Major Only)	436,305		436,305			
67	572	Maintenance of Underground Lines (Major Only)						
	573	Maintenance of Miscellaneous Transmission Plant (Major Only)	160,061	43,833	203,894			

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
35	517-525	Total Nuclear Power Generation Operation Expenses			
36	528-532	Total Nuclear Power Generation Maintenance Expenses			
37	535-540.1	Total Hydraulic Power Generation Operation Expenses	714		714
38	541-545.1	Total Hydraulic Power Generation Maintenance Expenses	2,511		2,511
39	548-550.1	Total Other Power Generation Operation Expenses	144,282	(1,199)	143,083
40	551-554.1	Total Other Power Generation Maintenance Expenses	25,829		25,829
41	555-557	Total Other Power Supply Operation Expenses	20,013	2,958,443	2,978,456
42	580	Operation Supervision and Engineering	875	2,373,319	2,374,194
43	581.1	Load Dispatch-Reliability		912,636	912,636
44	581.2	Load Dispatch-Monitor and Operate Transmission System	1,663,614	1,368,791	3,032,405
45	581.3	Load Dispatch-Transmission Service and Scheduling		1,240,324	1,240,324
46	581.4	Scheduling, System Control and Dispatch Services			
47	581.5	Reliability Planning and Standards Development		861,476	861,476
48	581.6	Transmission Service Studies	6,271		6,271
	581.7	Generation Interconnection Studies	2,476		2,476
50	581.8	Reliability Planning and Standards Development Services			
51	582	Station Expenses (Major Only)	232,887		232,887
52	583	Overhead Line Expenses (Major Only)	82,891		82,891
53	584	Underground Line Expenses (Major Only)			
54	585	Transmission of Electricity by Others (Major Only)			
55	586	Miscellaneous Transmission Expenses (Major Only)	147,924	1,071,945	1,219,869
56	587	Rents			
57	587.1	Operation Supplies and Expenses (Nonmajor Only)			
58		Total Transmission Operation Expenses	2,136,938	7,828,491	9,965,429
59	588	Maintenance Supervision and Engineering (Major Only)			
60	589	Maintenance of Structures (Major Only)			
61	589.1	Maintenance of Computer Hardware			
62	589.2	Maintenance of Computer Software			
63	589.3	Maintenance of Communication Equipment			
64	589.4	Maintenance of Miscellaneous Regional Transmission Plant			
65	570	Maintenance of Station Equipment (Major Only)	329,900	514,876	844,776
66	571	Maintenance of Overhead Lines (Major Only)	436,305		436,305
67	572	Maintenance of Underground Lines (Major Only)			
	573	Maintenance of Miscellaneous Transmission Plant (Major Only)	160,061	43,833	203,894

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
69	574	Maintenance of Transmission Plant (Nonmajor Only)						
70		Total Transmission Maintenance Expenses	926,266	558,709	1,484,975			
71	575.1-575.8	Total Regional Market Operation Expenses						
72	576.1-576.5	Total Regional Market Maintenance Expenses						
73	580-589	Total Distribution Operation Expenses	4,936,852	7,287,903	12,224,755			
74	590-598	Total Distribution Maintenance Expenses	483,854	464,267	948,121			
75		Total Electric Operation and Maintenance Expenses	67,767,605	80,209,986	147,977,591			
76	700-798	Production Expenses (Provide selected accounts in a footnote)						
77	800-813	Total Other Gas Supply Operation Expenses						
78	814-826	Total Underground Storage Operation Expenses	150,111		150,111			
79	830-837	Total Underground Storage Maintenance Expenses	34,907		34,907			
80	840-842.3	Total Other Storage Operation Expenses						
81	843.1-843.9	Total Other Storage Maintenance Expenses						
82	844.1-846.2	Total Liquefied Natural Gas Terminaling and Processing Operation Expenses						
83	847.1-847.8	Total Liquefied Natural Gas Terminaling and Processing Maintenance Expenses						
84	850	Operation Supervision and Engineering	975,050		975,050			
85	851	System Control and Load Dispatching	2,015		2,015			
86	852	Communication System Expenses						
87	853	Compressor Station Labor and Expenses						
88	854	Gas for Compressor Station Fuel						
89	855	Other Fuel and Power for Compressor Stations						
90	856	Mains Expenses						
91	857	Measuring and Regulating Station Expenses						
92	858	Transmission and Compression of Gas By Others						
93	859	Other Expenses						
94	860	Rents						
95		Total Gas Transmission Operation Expenses	977,065		977,065			
96	861	Maintenance Supervision and Engineering						
97	862	Maintenance of Structures and Improvements						
98	863	Maintenance of Mains	20,819		20,819			
99	864	Maintenance of Compressor Station Equipment						
100	865	Maintenance of Measuring And Regulating Station Equipment						
101	866	Maintenance of Communication Equipment						
102	867	Maintenance of Other Equipment						
103		Total Gas Transmission Maintenance Expenses	20,819		20,819			
104	870-881	Total Distribution Operation Expenses	268,812	607,532	876,344			

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
69	574	Maintenance of Transmission Plant (Nonmajor Only)			
70		Total Transmission Maintenance Expenses	926,266	558,709	1,484,975
71	575.1-575.8	Total Regional Market Operation Expenses			
72	576.1-576.5	Total Regional Market Maintenance Expenses			
73	580-589	Total Distribution Operation Expenses	4,936,852	7,287,903	12,224,755
74	590-598	Total Distribution Maintenance Expenses	483,854	464,267	948,121
75		Total Electric Operation and Maintenance Expenses	67,767,605	80,209,986	147,977,591
76	700-788	Production Expenses (Provide selected accounts in a footnote)			
77	800-813	Total Other Gas Supply Operation Expenses			
78	814-826	Total Underground Storage Operation Expenses	150,111		150,111
79	830-837	Total Underground Storage Maintenance Expenses	34,907		34,907
80	840-842.3	Total Other Storage Operation Expenses			
81	843.1-843.9	Total Other Storage Maintenance Expenses			
82	844.1-846.2	Total Liquefied Natural Gas Terminating and Processing Operation Expenses			
83	847.1-847.8	Total Liquefied Natural Gas Terminating and Processing Maintenance Expenses			
84	850	Operation Supervision and Engineering	975,050		975,050
85	851	System Control and Load Dispatching	2,015		2,015
86	852	Communication System Expenses			
87	853	Compressor Station Labor and Expenses			
88	854	Gas for Compressor Station Fuel			
89	855	Other Fuel and Power for Compressor Stations			
90	856	Mains Expenses			
91	857	Measuring and Regulating Station Expenses			
92	858	Transmission and Compression of Gas By Others			
93	859	Other Expenses			
94	860	Rents			
95		Total Gas Transmission Operation Expenses	977,065		977,065
96	861	Maintenance Supervision and Engineering			
97	862	Maintenance of Structures and Improvements			
98	863	Maintenance of Mains	20,819		20,819
99	864	Maintenance of Compressor Station Equipment			
100	865	Maintenance of Measuring And Regulating Station Equipment			
101	866	Maintenance of Communication Equipment			
102	867	Maintenance of Other Equipment			
103		Total Gas Transmission Maintenance Expenses	20,819		20,819
104	870-881	Total Distribution Operation Expenses	268,812	607,532	876,344

Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
105	885-894	Total Distribution Maintenance Expenses	48,534	116,173	164,707			
106		Total Natural Gas Operation and Maintenance Expenses	1,500,248	723,705	2,223,953			
107	901	Supervision	330,719	5,344,796	5,675,515			
108	902	Meter reading expenses	106	432,085	432,191			
109	903	Customer records and collection expenses	1,320,801	16,429,031	17,749,832			
110	904	Uncollectible accounts						
111	905	Miscellaneous customer accounts expenses		885	885			
112	906	Total Customer Accounts Operation Expenses	1,651,626	22,206,797	23,858,423			
113	907	Supervision		1,058,121	1,058,121			
114	908	Customer assistance expenses	2,170,831	690,714	2,861,545			
115	909	Informational And Instructional Advertising Expenses						
116	910	Miscellaneous Customer Service And Informational Expenses	313,160	20,043	333,203			
117		Total Service and Informational Operation Accounts	2,483,991	1,768,878	4,252,869			
118	911	Supervision						
119	912	Demonstrating and Selling Expenses						
120	913	Advertising Expenses						
	916	Miscellaneous Sales Expenses						
		Total Sales Operation Expenses						
123	920	Administrative and General Salaries	6,756,525	64,979,063	71,735,588			
124	921	Office Supplies and Expenses	458,123	9,980,351	10,438,474			
125	923	Outside Services Employed	5,403,202	9,531,336	14,934,538			
126	924	Property Insurance						
127	925	Injuries and Damages	81,906	24,372	106,278			
128	926	Employee Pensions and Benefits	9,964,807	41,898,802	51,863,609			
129	928	Regulatory Commission Expenses	26,340		26,340			
130	930.1	General Advertising Expenses						
131	930.2	Miscellaneous General Expenses	228	629,153	629,381			
132	931	Rents	33,889	3,773,228	3,807,117			
133		Total Administrative and General Operation Expenses	22,725,020	130,816,305	153,541,325			
134	935	Maintenance of Structures and Equipment	156,905	1,471,461	1,628,366			
135		Total Administrative and General Maintenance Expenses	27,017,542	156,263,441	183,280,983			
136		Total Cost of Service	96,285,395	237,197,132	333,482,527			

Name of Respondent LG&E and KU Services Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2018
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Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
105	885-894	Total Distribution Maintenance Expenses	48,534	116,173	164,707
106		Total Natural Gas Operation and Maintenance Expenses	1,500,248	723,705	2,223,953
107	901	Supervision	330,719	5,344,796	5,675,515
108	902	Meter reading expenses	106	432,085	432,191
109	903	Customer records and collection expenses	1,320,801	16,429,031	17,749,832
110	904	Uncollectible accounts			
111	905	Miscellaneous customer accounts expenses		885	885
112	906	Total Customer Accounts Operation Expenses	1,651,626	22,206,797	23,858,423
113	907	Supervision		1,058,121	1,058,121
114	908	Customer assistance expenses	2,170,831	690,714	2,861,545
115	909	Informational And Instructional Advertising Expenses			
116	910	Miscellaneous Customer Service And Informational Expenses	313,160	20,043	333,203
117		Total Service and Informational Operation Accounts	2,483,991	1,768,878	4,252,869
118	911	Supervision			
119	912	Demonstrating and Selling Expenses			
120	913	Advertising Expenses			
121	916	Miscellaneous Sales Expenses			
122		Total Sales Operation Expenses			
123	920	Administrative and General Salaries	6,756,525	64,979,063	71,735,588
124	921	Office Supplies and Expenses	458,123	9,980,351	10,438,474
125	923	Outside Services Employed	5,403,202	9,531,336	14,934,538
126	924	Property Insurance			
127	925	Injuries and Damages	81,906	24,372	106,278
128	926	Employee Pensions and Benefits	9,964,807	41,898,802	51,863,609
129	928	Regulatory Commission Expenses	26,340		26,340
130	930.1	General Advertising Expenses			
131	930.2	Miscellaneous General Expenses	228	629,153	629,381
132	931	Rents	33,889	3,773,228	3,807,117
133		Total Administrative and General Operation Expenses	22,725,020	130,816,305	153,541,325
134	935	Maintenance of Structures and Equipment	156,905	1,471,461	1,628,366
135		Total Administrative and General Maintenance Expenses	27,017,542	156,263,441	183,280,983
136		Total Cost of Service	96,285,395	237,197,132	333,482,527

Schedule XVII - Analysis of Billing – Associate Companies (Account 457)

1. For services rendered to associate companies (Account 457), list all of the associate companies.

Line No.	Name of Associate Company (a)	Account 457.1 Direct Costs Charged (b)	Account 457.2 Indirect Costs Charged (c)	Account 457.3 Compensation For Use of Capital (d)	Total Amount Billed (e)
1	Louisville Gas and Electric Company	40,927,408	110,382,928		151,310,336
2	Kentucky Utilities Company	43,036,655	125,941,568		168,978,223
3	Western Kentucky Energy Corp.	5,218			5,218
4	FCD LLC	2,532			2,532
5	PPL EU Services Corporation	39,065	8,498		47,563
6	LG&E and KU Capital LLC	12,107,477	851,689		12,959,166
7	PPL Corporation	791	299		1,090
8	PPL Services Corporation	127,418	9,486		136,904
9	PPL Electric Utilities Corporation	29,565			29,565
10	PPL Strategic Development, LLC	9,266	2,664		11,930
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38					
39					
40	Total	96,285,395	237,197,132		333,482,527

Schedule XVIII – Analysis of Billing – Non-Associate Companies (Account 458)

1. For services rendered to nonassociate companies (Account 458), list all of the nonassociate companies. In a footnote, describe the services rendered to each respective nonassociate company.

Line No.	Name of Non-associate Company (a)	Account 458.1 Direct Costs Charged (b)	Account 458.2 Indirect Costs Charged (c)	Account 458.3 Compensation For Use of Capital (d)	Account 458.4 Excess or Deficiency on Servicing Non-associate Utility Companies (e)	Total Amount Billed (f)
1						
2						
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31						
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37						
38						
39						
40	Total					

Schedule XIX - Miscellaneous General Expenses - Account 930.2

1. Provide a listing of the amount included in Account 930.2, "Miscellaneous General Expenses" classifying such expenses according to their nature. Amounts less than \$50,000 may be grouped showing the number of items and the total for the group.
 Payments and expenses permitted by Section 321 (b)(2) of the Federal Election Campaign Act, as amended by Public Law 94-283 in 1976 (2 U.S.C. 441(b)(2)) shall be separately classified.

Line No.	Title of Account (a)	Amount (b)
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39		
40	Total	

BLANK

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report
LG&E and KU Services Company			2018
Schedule XX - Organization Chart			

1. Provide a graphical presentation of the relationships and inter relationships within the service company that identifies lines of authority and responsibility in the organization.

The following were officers of LKS as of December 31, 2018:

Paul W. Thompson - Chairman of the Board, Chief Executive Officer and President

Lonnie E. Bellar - Chief Operating Officer

D. Ralph Bowling - Vice President, Power Production

Thomas A. Jessee - Vice President, Transmission

John P. Malloy - Vice President, Gas Distribution

Elizabeth J. McFarland - Vice President, Customer Services

David S. Sinclair - Vice President, Energy Supply and Analysis

Ronald Scott Straight - Vice President, Project Engineering

John K. Wolfe - Vice President, Electric Distribution

Kent W. Blake - Chief Financial Officer

Daniel K. Arbough - Treasurer

Robert M. Conroy - Vice President, State Regulation and Rates

Christopher M. Garrett - Controller

Eric Slavinsky - Chief Information Officer

Gregory J. Meiman - Vice President, Human Resources

John R. Crockett III - General Counsel, Chief Compliance Officer and Corporate Secretary

David J. Freibert - Vice President, External Affairs

Mary C. Whelan - Vice President, Communications

Angie M. Evans - Vice President, Corporate Responsibility and Community Affairs

Victor A. Staffieri, Chairman of the Board and Chief Executive Officer, announced his retirement, effective March 15, 2018.

Paul W. Thompson, President and Chief Operating Officer, was named Chairman of the Board, President and Chief Executive Officer, effective March 16, 2018.

Lonnie E. Bellar, Senior Vice President-Operations, was named Chief Operating Officer and a director, effective March 16, 2018.

Dorothy E. O'Brien, Vice President and Deputy General Counsel, Legal and Environmental Affairs was named Vice President and Deputy General Counsel, effective January 1, 2018 and announced her retirement, effective April 17, 2018. John R. Crockett III was named General Counsel, Chief Compliance Officer and Corporate Secretary, effective January 1, 2018.

Valerie L. Scott, Controller, was named Vice President, Accounting effective January 1, 2018 and announced her retirement, effective February 19, 2018. Christopher M. Garrett, Director of Rates was named Controller, effective January 1, 2018.

Name of Respondent	This Report is:	Resubmission Date	Year of Report
LG&E and KU Services Company	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2018
Schedule XX - Organization Chart			

Angie M. Evans, director of Corporate Responsibility and Community Affairs, was named Vice President, Corporate Responsibility and Community Affairs, effective March 26, 2018.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
Schedule XXI - Methods of Allocation			

1. Indicate the service department or function and the basis for allocation used when employees render services to more than one department or functional group. If a ratio, include the numerator and denominator.
2. Include any other allocation methods used to allocate costs.

Service Department or Function	Basis of Allocation
Customer Service	Number of Customers Ratio
Sales and Marketing	Number of Customers Ratio
Economic Development and Major Accounts	Number of Customers Ratio
Meter Reading Services	Number of Meters Ratio
Cash Remittance	Revenue Ratio
Billing Integrity	Number of Customers Ratio; Number of Meters Ratio
Energy Efficiency	Number of Customers Ratio
Smart Grid Strategy	Number of Customers Ratio
Field Services	Number of Meters Ratio
CCS Retail Business Readiness	Number of Customers Ratio
Project Engineering	Generation Ratio
System Laboratory	Total Utility Plant Assets Ratio
Generation	Total Utility Plant Assets Ratio
Generation Services and Safety	Total Utility Plant Assets Ratio; Total Utility Electric Plant Assets Ratio
Fuel Procurement	Contract Ratio; Generation Ratio
Project Development	Total Utility Plant Assets Ratio
Strategy, Reliability and Tariffs	Transmission Ratio
Operations and Construction	Transmission Ratio; Total Assets Ratio; Total Utility Plant Assets Ratio
Reliability and Compliance	Transmission Ratio
Energy Marketing	Generation Ratio
Market Forecasting	Generation Ratio
Load Forecasting	Generation Ratio
Generation Planning and Analysis	Generation Ratio
Network Trouble and Dispatch	Number of Customers Ratio
Electric Engineering	Total Assets Ratio
Distribution Asset Management	Number of Customers Ratio; Total Assets Ratio
Forestry	Total Assets Ratio
Substation Construction and Maintenance	Total Utility Plant Assets Ratio
Budgeting	Revenue, Total Assets and Number of Employees Ratio; Transmission Ratio; Generation Ratio; Number of Customers Ratio
Financial Planning	Revenue, Total Assets and Number of Employees Ratio
Accounting and Reporting	Revenue, Total Assets and Number of Employees Ratio
Property Accounting	Total Utility Plant Assets Ratio
Revenue Accounting	Revenue Ratio
Payroll	Number of Employees Ratio
Tax Accounting, Compliance and Reporting	Revenue, Total Assets and Number of Employees Ratio
Audit Services	Revenue, Total Assets and Number of Employees Ratio
Sarbanes-Oxley Compliance	Revenue, Total Assets and Number of Employees Ratio

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
LG&E and KU Services Company			
Schedule XXI - Methods of Allocation			

Treasury and Corporate Finance	Revenue, Total Assets and Number of Employees Ratio
Risk Management	Total Utility Plant Assets Ratio
Credit Administration	Generation Ratio
Energy Marketing Trading Controls	Generation Ratio
Supply Chain	Non-Fuel Material and Services Expenditures Ratio; Network Users Ratio; Ultimate Users Ratio
Accounts Payable	Number of Transactions Ratio; Non-Fuel Material and Services Expenditures Ratio
IT Security	Corporate Information Security Ratio; Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio
IT Applications Development and Support	Network Users Ratio; Number of Employees Ratio; Number of Customers Ratio; Ultimate Users Ratio
IT Infrastructure and Operations	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio
IT Governance	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio
IT Business Services	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio
IT Major Projects	Network Users Ratio; Number of Employees Ratio; Ultimate Users Ratio
Legal	Revenue, Total Assets and Number of Employees Ratio
Compliance	Number of Employees Ratio; Total Utility Plant Assets Ratio
Environmental Affairs	Electric Peak Load Ratio
Regulatory Affairs	Revenue Ratio
Government Affairs Management	Revenue Ratio
Internal Communications	Number of Employees Ratio
External and Brand Communications	Number of Customers Ratio; Revenue, Total Assets and Number of Employees Ratio
Public Affairs Management	Revenue, Total Assets and Number of Employees Ratio
Facilities and Buildings	Number of Customers Ratio; Number of Employees Ratio; Facilities Ratio
Security	Number of Employees Ratio
Production Mail	Number of Customers Ratio
Document	Number of Employees Ratio
Process Management and Performance	Number of Customers Ratio
Right-of-Way	Number of Customers Ratio
Transportation	Number of Employees Ratio; Vehicle Cost Allocation Ratio
HR Compensation	Number of Employees Ratio
HR Benefits	Number of Employees Ratio
Other HR Services	Number of Employees Ratio
Health and Safety	Number of Employees Ratio
Executive Management	Generation Ratio; Number of Customers Ratio; Network Users Ratio; Number of Employees Ratio; Revenue Ratio; Revenue, Total Assets and Number of Employees Ratio; Total Assets Ratio; Total Utility Plant Assets Ratio; Transmission Ratio

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2018
LG&E and KU Services Company			
Schedule XXI - Methods of Allocation			

Contract Ratio – Based on the sum of the physical amount (i.e. tons of coal, mmbtu of natural gas) of the contract for coal and natural gas fuel burned for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Corporate Information Security Ratio – This ratio allocates the cost of cyber security activities using an allocation consistent with the methodology used by third party insurers providing cyber security insurance to the organization. The methodology assigns a percentage of the premium based on the various risks (e.g., number of employees, the number of customers, etc.). The total of the percentages equals 100%. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Departmental Charge Ratio – A specific department ratio based upon various factors. The departmental charge ratio typically applies to indirectly attributable costs such as departmental administrative, support, and/or material and supply costs that benefit more than one affiliate and that require allocation using general measures of cost causation. Methods for assignment are department-specific depending on the type of service being performed and are documented and monitored by the Budget Coordinators for each department. The numerator and denominator vary by department. The ratio is based upon various factors such as labor hours, labor dollars, departmental or entity headcount, capital expenditures, operations and maintenance costs, retail energy sales, charitable contributions, generating plant sites, average allocation of direct reports, net book value of utility plant, total line of business assets, electric capital expenditures, substation assets and transformer assets. The departmental Charge Ratio will only be used with prior approval by the Controller when other applicable ratios would not result in the fair assignment of costs. These ratios are calculated on an annual basis. Any changes in these ratios will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in any of these ratios from that used in the prior year.

Electric Peak Load Ratio – Based on the sum of the monthly electric maximum system demands for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Facilities Ratio – Based on a two-tiered approach with one tier based on the number of employees by department or line of business and the other tier based on the applicable department or line of business ratio. The numerator for the number of employees is the number of employees by department or line of business at the facility and the denominator is the total employees at the facility. The numerator and denominator for the applicable department or line of business is the service provided as described in this document. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Generation Ratio – Based on the annual forecast of megawatt hours, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

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Network Users Ratio – Based on the number of IT network users at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate costs to the proper legal entity. The numerator for the first step of this ratio is the total number of network users for each specific company, and the denominator is the total number of network users for all companies in which an allocator is assigned (i.e. LG&E, KU, LKS and PPL). For the second step, the ratio of LKS network users, to total network users will then be allocated to the other companies (LG&E, KU, and LKC) based on each company's ratio of LKS labor hours to total LKS labor hours. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Non-Fuel Material and Services Expenditures – Based on non-fuel material and services expenditures, net of reimbursements, for the immediately preceding twelve consecutive calendar months. The numerator is equal to such expenditures for a specific entity and/or line-of-business as appropriate and the denominator is equal to such expenditures for all applicable entities. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Customers Ratio – Based on the number of retail electric and/or gas customers. This ratio will be determined based on the actual number of customers at the end of the previous calendar year. In some cases, the ratio may be calculated based on the type of customer class being served (i.e. Residential, Commercial or Industrial). The numerator is the total number of each Company's retail customers. The denominator is the total number of retail customers for both LG&E and KU. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Employees Ratio – Based on the number of employees benefiting from the performance of a service. This ratio will be determined based on actual counts of applicable employees at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate LKS employee costs to the proper legal entity. The numerator for the first step of this ratio is the total number of employees for each specific company, and the denominator is the total number of employees for all companies in which an allocator is assigned (i.e. LG&E, KU and LKS). For the second step, the ratio of LKS to total employees will then be allocated to the other companies (LG&E, KU and LKC) based on each company's ratio of labor dollars to total labor dollars. LKC has no employees, but non-utility related labor is charged to it. In some cases, the ratio may be calculated based on the number of employees at a specific location for the first step with the ratio of LKS to total employees being allocated based on labor hours of the employees at the specific location. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Meters Ratio – Based on the number or types of meters being utilized by customer classes within the system for the immediately preceding twelve consecutive calendar months. The numerator is equal to the number of meters for each utility and the denominator is equal to the total meters for KU and LG&E. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Number of Transactions Ratio – Based on the number of transactions occurring in the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. The Controller's organization is responsible for maintaining and monitoring specific

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product/service methodology documentation for actual transactions related to LKS billings. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Ownership Percentages – Based on the contractual ownership percentages of jointly-owned generating units, information technology, facilities and other capital projects. This ratio is updated as a result of a new jointly-owned capital projects and is based on the benefit to the respective company. The numerator is the specific company's forecasted usage. The denominator is the total forecasted usage of all respective companies.

Revenue Ratio – Based on the sum of the revenue for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Revenue, Total Assets and Number of Employees Ratio – Based on an average of the revenue, total assets and number of employees ratios. The numerator is the sum of Revenue Ratio, Total Assets Ratio and Number of Employees Ratio for the specific company. The denominator is three – the number of ratios being averaged. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Total Assets Ratio – Based on the total assets at year end for the preceding year. In the event of joint ownership of a specific asset, asset ownership percentages are utilized to assign costs. The numerator is the total assets for each specific company at the end of the preceding year. The denominator is the sum of total assets for each company in which an allocator is assigned (LG&E, KU and LKC). This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Total Utility Plant Assets Ratio – Based on the total utility plant assets at year end for the preceding year, the numerator of which is for an operating company and the denominator of which is for all operating companies. In the event of joint ownership of a specific asset, ownership percentages are utilized to assign costs. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Transmission Ratio – The Transmission Coordination Agreement (TCA) provides “the contractual basis for the coordinated planning, operation, and maintenance of the combined” LG&E and KU transmission system. Pursuant to the terms of the TCA, LG&E/KU “operate their transmission systems as a single control area.” The TCA establishes cost and revenue allocations between LG&E and KU. The Transmission Ratio is based upon Schedule A (Allocation of Operating Expenses of the Transmission System Operator) of the TCA. Transmission System Operator Company allocation percentages are calculated during June of each year to be effective July 1st of each year using the previous year's summation of the Transmission Peak Demands as found in FERC Form 1 for LG&E and KU, page 400 line 17(b).

Ultimate Users Ratio – Based on the number of ultimate users of an IT product or service (i.e., software, hardware, mobile devices, etc.) at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate costs to the proper legal entity. The numerator for the first step of this ratio is the total number of ultimate users for each specific company, and the denominator is the total number of ultimate users for all companies

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in which an allocator is assigned (i.e. LG&E, KU, LKS and PPL). For the second step, the ratio of LKS ultimate users, to total ultimate users will then be allocated to the other companies (LG&E, KU, and LKC) based on each company's ratio of LKS labor hours to total LKS labor hours. This ratio is calculated on an annual basis. Any changes in the ratio will be determined no later than May 1st of the following calendar year, and charges to date will be reallocated for any significant changes in the ratio from that used in the prior year.

Vehicle Cost Allocation Ratio – Based on the costs associated with providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles. Such rates are applied based on the specific equipment employment and the measured usage of services by the various company entities. This ratio is calculated monthly based on the actual transportation charges from the previous month. The numerator is the department labor charged to a specific company. The denominator is the total labor costs for the specific department. The ratio is then multiplied by the total transportation costs to determine the amount charged to each company.

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Schedule of Professional Employees Transferred from LG&E or KU to Non-Utility Affiliates in 2018

Name	Old Company	New Company	New Job Title	Old Job Title	Eff Date	Sal Plan	Union Code
Barnett,Scott	Louisville Gas & Electric Co.	LG&E and KU Services Company	Distribution Sys Operator I	Operator - Trimble County	1/1/2018	NE	
Booth,Michael	Louisville Gas & Electric Co.	LG&E and KU Services Company	Engineer Co-op/Intern III	Engineer Co-op/Intern III	5/7/2018	99	
Bowman,Jacqueline S	Louisville Gas & Electric Co.	LG&E and KU Services Company	Sr Controls Spec - Gen Srvs	Sr Control Specialist	7/16/2018	EX	
Brown,Vivian A	Kentucky Utilities	LG&E and KU Services Company	Corporate Facilities Coord I	Dept/Div Secretary	12/17/2018	EX	
Burke,Adam Sheldon	Louisville Gas & Electric Co.	LG&E and KU Services Company	Engineer Co-op/Intern II	Engineer Co-op/Intern III	12/31/2018	99	
Compton,Joseph V	Louisville Gas & Electric Co.	LG&E and KU Services Company	Distribution Sys Operator I	Assistant Operator-Trimble Co	1/1/2018	NE	
Elmlinger,Matthew Joseph	Louisville Gas & Electric Co.	LG&E and KU Services Company	Engineer Co-op/Intern III	Engineer Co-op/Intern III	8/27/2018	99	
Ford,Erika Denise	Louisville Gas & Electric Co.	LG&E and KU Services Company	Revenue Collection Rep I	Customer Representative I	6/4/2018	NE	
French,Jessica Anne	Kentucky Utilities	LG&E and KU Services Company	Sr Customer Care Rep	Lead Customer Representative	1/29/2018	NE	
Hall,Steven C	Louisville Gas & Electric Co.	LG&E and KU Services Company	Safety&Tech Train Cons Interm	Ime Tech A	8/27/2018	EX	
Hankins,Leanna Michelle	Kentucky Utilities	LG&E and KU Services Company	Customer Care Rep I	Customer Representative I	6/4/2018	NE	
Hudson,Ronald M	Louisville Gas & Electric Co.	LG&E and KU Services Company	Training Consultant-Interm	Line Technician A	5/7/2018	EX	
Jewell,Katie Heath	Louisville Gas & Electric Co.	LG&E and KU Services Company	Fuels Coordinator	Gas Distribution Planner II	4/2/2018	EX	
Lanham,Scotty Ray	Kentucky Utilities	LG&E and KU Services Company	Electric System Coordinator I	Unit Operator	7/30/2018	EX	
Mattingly,Chris A	Kentucky Utilities	LG&E and KU Services Company	Buyer I	Storeroom Specialist	6/4/2018	EX	
Miller,Eric	Louisville Gas & Electric Co.	LG&E and KU Services Company	Distribution Sys Operator I	Operator - Trimble County	2/26/2018	NE	
Montgomery,Patrick D	Kentucky Utilities	LG&E and KU Services Company	Engineer Co-op/Intern III	Engineer Co-op/Intern III	6/18/2018	99	
Motley,Brenton M	Louisville Gas & Electric Co.	LG&E and KU Services Company	Contract Administrator I	Buyer II	6/11/2018	EX	
Neely,Joshua David	Louisville Gas & Electric Co.	LG&E and KU Services Company	Grp Ldr-Sub Relay Prot & Ctrl	Team Ldr Substat Rly & Cntrl	1/1/2018	EX	
Phillips,Jared C	Louisville Gas & Electric Co.	LG&E and KU Services Company	Distribution Sys Operator I	Line Technician A	5/21/2018	NE	
Ramirez-Leon,Carlos	Kentucky Utilities	LG&E and KU Services Company	Electrical Engineer II	Electrical Engineer II	1/15/2018	EX	
Spencer,Lisvet De Las Mercedes Brock	Kentucky Utilities	LG&E and KU Services Company	Remittance Associate	Customer Representative I	3/19/2018	NE	
Tuttle,Zachary K	Louisville Gas & Electric Co.	LG&E and KU Services Company	Safety&Tech Train Cons Interm	Distribution Crew Leader	5/21/2018	EX	
Vaughn,Lovell G	Kentucky Utilities	LG&E and KU Services Company	Training Consultant-Interm	Substation Technician A	4/16/2018	EX	
Weatherford,Brent R	Louisville Gas & Electric Co.	LG&E and KU Services Company	Safety&Tech Train Cons Interm	Prover	6/4/2018	EX	
Wiegel,James Christofer	Louisville Gas & Electric Co.	LG&E and KU Services Company	Team Ldr Sub Relay Prot & Ctrl	Sub Control Technician Spclst	5/7/2018	EX	
Winterrowd,Donald D	Kentucky Utilities	LG&E and KU Services Company	Safety Specialist II	Line Technician A	6/4/2018	EX	
Zimlich Jr,John G	Louisville Gas & Electric Co.	LG&E and KU Services Company	Safety&Tech Train Cons Interm	Sr Safety Specialist	5/21/2018	EX	

COSTS OF JOINTLY OWNED SOLAR FACILITY

In 2016, LG&E and KU completed the construction of a solar facility at the EW Brown site owned by KU. This unit has an 8 MW net summer capacity and is jointly owned by LG&E (39%) and KU (61%). Capital costs of Brown Solar are allocated according to the 39% LG&E and 61% KU ownership split.

Automated allocations of costs using the Brown Solar ownership percentages are processed in the Oracle General Ledger system and generate intercompany transactions between LG&E and KU. Operation and maintenance costs are accumulated at KU and transferred to LG&E. At KU an intercompany receivable is debited and the appropriate expense is credited. LG&E debits the appropriate expense account and credits an intercompany receivable. The amounts are then netted with other intercompany transactions between LG&E and KU to establish an intercompany receivable for KU or LG&E and an intercompany payable for LG&E or KU.