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**PPL companies**

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

August 9, 2019

**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**

**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

Dear Ms Pinson:

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

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

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

Sincerely,

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

Rick E. Lovekamp

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, 2019
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

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

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

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

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

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

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

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

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
PPL Corporation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PPL Electric Utilities Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
LG&E and KU Energy LLC	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Louisville Gas and Electric Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kentucky Utilities Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

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

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

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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, 722,247,303 shares outstanding at July 31, 2019.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at July 31, 2019.
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, 2019.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KY Energy LLC at July 31, 2019.

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

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**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, 2019

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

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

**Other terms and abbreviations**

**£** - British pound sterling.

**2018 Form 10-K** - Annual Report to the SEC on Form 10-K for the year ended December 31, 2018.

**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).

**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.

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

**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.



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

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

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

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

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

**EPS** - earnings per share.

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

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

**GBP** - British pound sterling.

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

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

**HB 487** - House Bill 487. Comprehensive Kentucky state tax legislation enacted in April 2018.

**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.

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

**MW** - megawatt, one thousand kilowatts.

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

**NERC** - North American Electric Reliability Corporation.

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

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

**OCI** - other comprehensive income or loss.

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

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

**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.

**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, 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 indirect parent company of PPL Montana, LLC.

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

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

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

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

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

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

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

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

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

**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.

**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 2018 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;
- the direct or indirect effects on PPL or its subsidiaries or business systems of cyber-based intrusion or the threat of cyberattacks;
- 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;
- the amount of WPD's pension deficit funding recovered in revenues after March 31, 2021, following the next triennial pension review that began 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;

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- 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 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.

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

**PART I. FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**PPL Corporation and Subsidiaries**

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Operating Revenues</b>	\$ 1,803	\$ 1,848	\$ 3,882	\$ 3,974
<b>Operating Expenses</b>				
Operation				
Fuel	168	189	362	403
Energy purchases	138	148	388	389
Other operation and maintenance	482	506	972	974
Depreciation	300	273	584	542
Taxes, other than income	75	74	155	157
Total Operating Expenses	1,163	1,190	2,461	2,465
<b>Operating Income</b>	640	658	1,421	1,509
Other Income (Expense) - net	131	234	183	191
Interest Expense	246	235	487	474
<b>Income Before Income Taxes</b>	525	657	1,117	1,226
Income Taxes	84	142	210	259
<b>Net Income</b>	\$ 441	\$ 515	\$ 907	\$ 967
<b>Earnings Per Share of Common Stock:</b>				
Net Income Available to PPL Common Shareowners:				
Basic	\$ 0.61	\$ 0.74	\$ 1.26	\$ 1.39
Diluted	\$ 0.60	\$ 0.73	\$ 1.24	\$ 1.38
<b>Weighted-Average Shares of Common Stock Outstanding (in thousands)</b>				
Basic	721,785	699,006	721,406	696,772
Diluted	730,915	700,976	730,436	698,161

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Net income</b>	\$ 441	\$ 515	\$ 907	\$ 967
<b>Other comprehensive income (loss):</b>				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of \$0, (\$2), \$0, (\$2)	(377)	(250)	(83)	(134)
Qualifying derivatives, net of tax of (\$8), (\$4), (\$4), \$0	35	19	16	(1)
Defined benefit plans:				
Prior service costs, net of tax of \$0, \$0, \$0, \$0	—	(1)	—	(1)
Net actuarial gain (loss), net of tax of \$1, \$0, \$2, \$0	(2)	—	(5)	(1)
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):				
Qualifying derivatives, net of tax of \$6, \$3, \$0, \$1	(27)	(19)	(3)	(7)
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 (\$6), (\$9), (\$11), (\$18)	21	34	42	70
<b>Total other comprehensive income (loss)</b>	<b>(349)</b>	<b>(216)</b>	<b>(32)</b>	<b>(73)</b>
<b>Comprehensive income</b>	<b>\$ 92</b>	<b>\$ 299</b>	<b>\$ 875</b>	<b>\$ 894</b>

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)

	Six Months Ended June 30,	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 907	\$ 967
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	584	542
Amortization	31	34
Defined benefit plans - (income)	(135)	(101)
Deferred income taxes and investment tax credits	154	171
Unrealized (gains) losses on derivatives, and other hedging activities	22	(91)
Stock-based compensation expense	19	16
Other	(7)	(9)
Change in current assets and current liabilities		
Accounts receivable	22	46
Accounts payable	(102)	(90)
Unbilled revenues	70	91
Fuel, materials and supplies	19	32
Prepayments	(79)	(60)
Regulatory assets and liabilities, net	(72)	42
Accrued interest	(63)	(79)
Other current liabilities	(85)	(47)
Other	11	12
Other operating activities		
Defined benefit plans - funding	(207)	(206)
Proceeds from transfer of excess benefit plan funds	—	65
Other assets	11	(67)
Other liabilities	(30)	57
Net cash provided by operating activities	<u>1,070</u>	<u>1,325</u>
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(1,474)	(1,527)
Purchase of investments	(55)	(65)
Proceeds from the sale of investments	61	—
Other investing activities	(11)	(57)
Net cash used in investing activities	<u>(1,479)</u>	<u>(1,649)</u>
<b>Cash Flows from Financing Activities</b>		
Issuance of long-term debt	769	584
Retirement of long-term debt	(200)	(250)
Issuance of common stock	35	147
Payment of common stock dividends	(594)	(558)
Net increase in short-term debt	206	788
Other financing activities	(18)	(16)
Net cash provided by financing activities	<u>198</u>	<u>695</u>
<b>Effect of Exchange Rates on Cash, Cash Equivalents and Restricted Cash</b>	<u>(4)</u>	<u>(7)</u>
<b>Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash</b>	<u>(215)</u>	<u>364</u>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	643	511
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 428</u>	<u>\$ 875</u>

**Supplemental Disclosures of Cash Flow Information**

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$ 278	\$ 329
Accrued expenditures for intangible assets at June 30,	\$ 59	\$ 59



*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)

	June 30, 2019	December 31, 2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 406	\$ 621
Accounts receivable (less reserve: 2019, \$60; 2018, \$56)		
Customer	662	663
Other	110	107
Unbilled revenues	425	496
Fuel, materials and supplies	286	303
Prepayments	142	70
Price risk management assets	133	109
Other current assets	67	63
<b>Total Current Assets</b>	<b>2,231</b>	<b>2,432</b>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	40,793	39,734
Less: accumulated depreciation - regulated utility plant	7,583	7,310
Regulated utility plant, net	33,210	32,424
Non-regulated property, plant and equipment	342	355
Less: accumulated depreciation - non-regulated property, plant and equipment	104	101
Non-regulated property, plant and equipment, net	238	254
Construction work in progress	1,682	1,780
<b>Property, Plant and Equipment, net</b>	<b>35,130</b>	<b>34,458</b>
<b>Other Noncurrent Assets</b>		
Regulatory assets	1,662	1,673
Goodwill	3,139	3,162
Other intangibles	710	716
Pension benefit asset	832	535
Price risk management assets	209	228
Other noncurrent assets	291	192
<b>Total Other Noncurrent Assets</b>	<b>6,843</b>	<b>6,506</b>
<b>Total Assets</b>	<b>\$ 44,204</b>	<b>\$ 43,396</b>

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)

	June 30, 2019	December 31, 2018
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 1,636	\$ 1,430
Long-term debt due within one year	136	530
Accounts payable	830	989
Taxes	111	110
Interest	215	278
Dividends	298	296
Customer deposits	265	257
Regulatory liabilities	60	122
Other current liabilities	512	551
<b>Total Current Liabilities</b>	<b>4,063</b>	<b>4,563</b>
<b>Long-term Debt</b>	<b>20,965</b>	<b>20,069</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	2,986	2,796
Investment tax credits	125	126
Accrued pension obligations	716	771
Asset retirement obligations	223	264
Regulatory liabilities	2,685	2,714
Other deferred credits and noncurrent liabilities	458	436
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>7,193</b>	<b>7,107</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 11)</b>		
<b>Equity</b>		
Common stock - \$0.01 par value (a)	7	7
Additional paid-in capital	11,069	11,021
Earnings reinvested	4,903	4,593
Accumulated other comprehensive loss	(3,996)	(3,964)
<b>Total Equity</b>	<b>11,983</b>	<b>11,657</b>
<b>Total Liabilities and Equity</b>	<b>\$ 44,204</b>	<b>\$ 43,396</b>

(a) 1,560,000 shares authorized; 721,840 and 720,323 shares issued and outstanding at June 30, 2019 and December 31, 2018.

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

**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

**PPL Corporation and Subsidiaries**

(Unaudited)  
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
<b>March 31, 2019</b>	721,371	\$ 7	\$ 11,051	\$ 4,761	\$ (3,647)	\$ 12,172
Common stock issued	469		15			15
Stock-based compensation			3			3
Net income				441		441
Dividends and dividend equivalents (b)				(299)		(299)
Other comprehensive income (loss)					(349)	(349)
<b>June 30, 2019</b>	<b>721,840</b>	<b>\$ 7</b>	<b>\$ 11,069</b>	<b>\$ 4,903</b>	<b>\$ (3,996)</b>	<b>\$ 11,983</b>
<b>December 31, 2018</b>	720,323	\$ 7	\$ 11,021	\$ 4,593	\$ (3,964)	\$ 11,657
Common stock issued	1,517		47			47
Stock-based compensation			1			1
Net income				907		907
Dividends and dividend equivalents (b)				(597)		(597)
Other comprehensive income (loss)					(32)	(32)
<b>June 30, 2019</b>	<b>721,840</b>	<b>\$ 7</b>	<b>\$ 11,069</b>	<b>\$ 4,903</b>	<b>\$ (3,996)</b>	<b>\$ 11,983</b>
<b>March 31, 2018</b>	697,383	\$ 7	\$ 10,411	\$ 4,037	\$ (3,279)	\$ 11,176
Common stock issued	1,745		48			48
Stock-based compensation			3			3
Net income				515		515
Dividends and dividend equivalents (b)				(286)		(286)
Other comprehensive income (loss)					(216)	(216)
<b>June 30, 2018</b>	<b>699,128</b>	<b>\$ 7</b>	<b>\$ 10,462</b>	<b>\$ 4,266</b>	<b>\$ (3,495)</b>	<b>\$ 11,240</b>
<b>December 31, 2017</b>	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 (b)				(572)		(572)
Other comprehensive income (loss)					(73)	(73)
<b>June 30, 2018</b>	<b>699,128</b>	<b>\$ 7</b>	<b>\$ 10,462</b>	<b>\$ 4,266</b>	<b>\$ (3,495)</b>	<b>\$ 11,240</b>

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

(b) Dividends declared per share of common stock were \$0.4125 and \$0.8250 for the three and six months ended June 30, 2019 and \$0.4100 and \$0.8200 for the three and six months ended June 30, 2018.

*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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Operating Revenues</b>	\$ 521	\$ 517	\$ 1,166	\$ 1,156
<b>Operating Expenses</b>				
Operation				
Energy purchases	110	115	281	276
Other operation and maintenance	130	159	280	292
Depreciation	96	88	191	173
Taxes, other than income	24	22	55	54
<b>Total Operating Expenses</b>	<b>360</b>	<b>384</b>	<b>807</b>	<b>795</b>
<b>Operating Income</b>	<b>161</b>	<b>133</b>	<b>359</b>	<b>361</b>
Other Income (Expense) - net	6	7	11	13
Interest Income from Affiliate	—	1	2	1
Interest Expense	41	39	83	76
<b>Income Before Income Taxes</b>	<b>126</b>	<b>102</b>	<b>289</b>	<b>299</b>
Income Taxes	32	27	74	76
<b>Net Income (a)</b>	<b>\$ 94</b>	<b>\$ 75</b>	<b>\$ 215</b>	<b>\$ 223</b>

(a) Net income equals comprehensive income.

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

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

(Unaudited)  
(Millions of Dollars)

	Six Months Ended June 30,	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 215	\$ 223
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	191	173
Amortization	11	11
Deferred income taxes and investment tax credits	36	53
Other	(9)	(9)
Change in current assets and current liabilities		
Accounts receivable	7	37
Accounts payable	(39)	(60)
Unbilled revenues	31	30
Prepayments	(64)	(47)
Regulatory assets and liabilities, net	(40)	(27)
Taxes payable	(4)	(1)
Other	(7)	1
Other operating activities		
Defined benefit plans - funding	(21)	(28)
Other assets	4	(41)
Other liabilities	3	49
Net cash provided by operating activities	<u>314</u>	<u>364</u>
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(533)	(518)
Other investing activities	3	(3)
Net cash used in investing activities	<u>(530)</u>	<u>(521)</u>
<b>Cash Flows from Financing Activities</b>		
Issuance of long-term debt	—	398
Contributions from parent	—	425
Payment of common stock dividends to parent	(215)	(222)
Net increase in short-term debt	185	—
Other financing activities	(1)	(4)
Net cash provided by (used in) financing activities	<u>(31)</u>	<u>597</u>
<b>Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash</b>	<b>(247)</b>	<b>440</b>
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	<u>269</u>	<u>51</u>
Cash, Cash Equivalents and Restricted Cash at End of Period	<u>\$ 22</u>	<u>\$ 491</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
<b>Significant non-cash transactions:</b>		
Accrued expenditures for property, plant and equipment at June 30,	\$ 158	\$ 180

*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)

	June 30, 2019	December 31, 2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 20	\$ 267
Accounts receivable (less reserve: 2019, \$28; 2018, \$27)		
Customer	286	264
Other	21	38
Accounts receivable from affiliates	10	11
Unbilled revenues	89	120
Materials and supplies	26	25
Prepayments	62	5
Regulatory assets	17	11
Other current assets	8	9
<b>Total Current Assets</b>	<b>539</b>	<b>750</b>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	12,036	11,637
Less: accumulated depreciation - regulated utility plant	2,961	2,856
Regulated utility plant, net	9,075	8,781
Construction work in progress	627	586
Property, Plant and Equipment, net	9,702	9,367
<b>Other Noncurrent Assets</b>		
Regulatory assets	805	824
Intangibles	260	260
Other noncurrent assets	48	42
<b>Total Other Noncurrent Assets</b>	<b>1,113</b>	<b>1,126</b>
<b>Total Assets</b>	<b>\$ 11,354</b>	<b>\$ 11,243</b>

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



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

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

	June 30, 2019	December 31, 2018
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 185	\$ —
Accounts payable	374	418
Accounts payable to affiliates	30	25
Taxes	8	12
Interest	37	37
Regulatory liabilities	43	74
Other current liabilities	95	101
Total Current Liabilities	<u>772</u>	<u>667</u>
<b>Long-term Debt</b>	<u>3,695</u>	<u>3,694</u>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	1,371	1,320
Accrued pension obligations	253	282
Regulatory liabilities	661	675
Other deferred credits and noncurrent liabilities	141	144
Total Deferred Credits and Other Noncurrent Liabilities	<u>2,426</u>	<u>2,421</u>
<b>Commitments and Contingent Liabilities (Notes 7 and 11)</b>		
<b>Equity</b>		
Common stock - no par value (a)	364	364
Additional paid-in capital	3,158	3,158
Earnings reinvested	939	939
Total Equity	<u>4,461</u>	<u>4,461</u>
<b>Total Liabilities and Equity</b>	<u>\$ 11,354</u>	<u>\$ 11,243</u>

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at June 30, 2019 and December 31, 2018.

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

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

(Unaudited)  
(Millions of Dollars)

	Common stock shares outstanding (a)	Common stock	Additional paid-in capital	Earnings reinvested	Total
<b>March 31, 2019</b>	66,368	\$ 364	\$ 3,158	\$ 940	\$ 4,462
Net income				94	94
Dividends declared on common stock				(95)	(95)
<b>June 30, 2019</b>	66,368	\$ 364	\$ 3,158	\$ 939	\$ 4,461
<b>December 31, 2018</b>	66,368	\$ 364	\$ 3,158	\$ 939	\$ 4,461
Net income				215	215
Dividends declared on common stock				(215)	(215)
<b>June 30, 2019</b>	66,368	\$ 364	\$ 3,158	\$ 939	\$ 4,461
<b>March 31, 2018</b>	66,368	\$ 364	\$ 2,729	\$ 975	\$ 4,068
Net income				75	75
Capital contributions from parent			425		425
Dividends declared on common stock				(150)	(150)
<b>June 30, 2018</b>	66,368	\$ 364	\$ 3,154	\$ 900	\$ 4,418
<b>December 31, 2017</b>	66,368	\$ 364	\$ 2,729	\$ 899	\$ 3,992
Net income				223	223
Capital contributions from parent			425		425
Dividends declared on common stock				(222)	(222)
<b>June 30, 2018</b>	66,368	\$ 364	\$ 3,154	\$ 900	\$ 4,418

(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,	
	2019	2018	2019	2018
<b>Operating Revenues</b>	\$ 732	\$ 743	\$ 1,577	\$ 1,615
<b>Operating Expenses</b>				
Operation				
Fuel	168	189	362	403
Energy purchases	27	33	106	113
Other operation and maintenance	208	211	422	416
Depreciation	135	118	258	235
Taxes, other than income	18	18	36	35
Total Operating Expenses	556	569	1,184	1,202
<b>Operating Income</b>	176	174	393	413
Other Income (Expense) - net	—	1	—	(2)
Interest Expense	58	52	112	102
Interest Expense with Affiliate	9	6	16	11
<b>Income Before Income Taxes</b>	109	117	265	298
Income Taxes	3	31	35	70
<b>Net Income (a)</b>	\$ 106	\$ 86	\$ 230	\$ 228

(a) Net income approximates comprehensive income.

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

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

(Unaudited)  
(Millions of Dollars)

	Six Months Ended June 30,	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 230	\$ 228
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	258	235
Amortization	16	9
Defined benefit plans - expense	5	8
Deferred income taxes and investment tax credits	47	30
Other	(1)	(1)
Change in current assets and current liabilities		
Accounts receivable	24	16
Accounts payable	(34)	(10)
Unbilled revenues	13	40
Fuel, materials and supplies	21	26
Regulatory assets and liabilities, net	(32)	69
Taxes payable	(25)	(25)
Accrued interest	7	—
Other	(23)	(39)
Other operating activities		
Defined benefit plans - funding	(28)	(122)
Expenditures for asset retirement obligations	(45)	(26)
Other assets	(1)	(1)
Other liabilities	13	3
Net cash provided by operating activities	<u>445</u>	<u>440</u>
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(530)	(564)
Net cash used in investing activities	<u>(530)</u>	<u>(564)</u>
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in notes payable with affiliate	90	(126)
Issuance of long-term debt with affiliate	—	250
Issuance of long-term debt	705	100
Retirement of long-term debt	(200)	—
Net increase (decrease) in short-term debt	(418)	72
Distributions to member	(137)	(161)
Contributions from member	63	—
Other financing activities	(10)	(2)
Net cash provided by financing activities	<u>93</u>	<u>133</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>8</b>	<b>9</b>
Cash and Cash Equivalents at Beginning of Period	24	30
Cash and Cash Equivalents at End of Period	<u>\$ 32</u>	<u>\$ 39</u>

**Supplemental Disclosure of Cash Flow Information**

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$ 91	\$ 112
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*The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.*

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

(Unaudited)  
(Millions of Dollars)

	June 30, 2019	December 31, 2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 32	\$ 24
Accounts receivable (less reserve: 2019, \$27; 2018, \$27)		
Customer	219	239
Other	69	63
Accounts receivable from affiliates	1	—
Unbilled revenues	156	169
Fuel, materials and supplies	228	248
Prepayments	30	25
Regulatory assets	26	25
Total Current Assets	<u>761</u>	<u>793</u>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	14,072	13,721
Less: accumulated depreciation - regulated utility plant	2,192	2,125
Regulated utility plant, net	<u>11,880</u>	<u>11,596</u>
Construction work in progress	929	1,018
Property, Plant and Equipment, net	<u>12,809</u>	<u>12,614</u>
<b>Other Noncurrent Assets</b>		
Regulatory assets	857	849
Goodwill	996	996
Other intangibles	74	78
Other noncurrent assets	133	82
Total Other Noncurrent Assets	<u>2,060</u>	<u>2,005</u>
<b>Total Assets</b>	<u>\$ 15,630</u>	<u>\$ 15,412</u>

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

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

(Unaudited)  
(Millions of Dollars)

	June 30, 2019	December 31, 2018
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ 96	\$ 514
Long-term debt due within one year	136	530
Notes payable with affiliates	203	113
Accounts payable	283	366
Accounts payable to affiliates	8	9
Customer deposits	63	61
Taxes	38	63
Price risk management liabilities	5	4
Regulatory liabilities	17	48
Interest	39	32
Asset retirement obligations	80	82
Other current liabilities	136	126
<b>Total Current Liabilities</b>	<b>1,104</b>	<b>1,948</b>
<b>Long-term Debt</b>		
Long-term debt	5,216	4,322
Long-term debt to affiliate	650	650
<b>Total Long-term Debt</b>	<b>5,866</b>	<b>4,972</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	1,020	956
Investment tax credits	124	126
Price risk management liabilities	18	16
Accrued pension obligations	264	282
Asset retirement obligations	175	214
Regulatory liabilities	2,024	2,039
Other deferred credits and noncurrent liabilities	158	136
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>3,783</b>	<b>3,769</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 11)</b>		
<b>Member's Equity</b>	<b>4,877</b>	<b>4,723</b>
<b>Total Liabilities and Equity</b>	<b>\$ 15,630</b>	<b>\$ 15,412</b>

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

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

(Unaudited)  
(Millions of Dollars)

	<b>Member's Equity</b>
<b>March 31, 2019</b>	<b>\$ 4,791</b>
Net income	106
Contributions from member	63
Distributions to member	(81)
Other comprehensive income (loss)	(2)
<b>June 30, 2019</b>	<b>\$ 4,877</b>
<b>December 31, 2018</b>	<b>\$ 4,723</b>
Net income	230
Contributions from member	63
Distributions to member	(137)
Other comprehensive income (loss)	(2)
<b>June 30, 2019</b>	<b>\$ 4,877</b>
<b>March 31, 2018</b>	<b>\$ 4,637</b>
Net income	86
Distributions to member	(92)
Other comprehensive income	1
<b>June 30, 2018</b>	<b>\$ 4,632</b>
<b>December 31, 2017</b>	<b>\$ 4,563</b>
Net income	228
Distributions to member	(161)
Other comprehensive income	2
<b>June 30, 2018</b>	<b>\$ 4,632</b>

*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,	
	2019	2018	2019	2018
<b>Operating Revenues</b>				
Retail and wholesale	\$ 404	\$ 412	\$ 852	\$ 877
Electric revenue from affiliate	2	2	4	8
<b>Total Operating Revenues</b>	<b>406</b>	<b>414</b>	<b>856</b>	<b>885</b>
<b>Operating Expenses</b>				
Operation				
Fuel	99	117	215	252
Energy purchases	5	5	10	9
Energy purchases from affiliate	6	4	19	16
Other operation and maintenance	105	112	213	217
Depreciation	78	70	150	138
Taxes, other than income	8	9	17	17
<b>Total Operating Expenses</b>	<b>301</b>	<b>317</b>	<b>624</b>	<b>649</b>
<b>Operating Income</b>	<b>105</b>	<b>97</b>	<b>232</b>	<b>236</b>
Other Income (Expense) - net	(2)	3	—	—
Interest Expense	28	25	54	50
<b>Income Before Income Taxes</b>	<b>75</b>	<b>75</b>	<b>178</b>	<b>186</b>
Income Taxes	14	14	36	38
<b>Net Income (a)</b>	<b>\$ 61</b>	<b>\$ 61</b>	<b>\$ 142</b>	<b>\$ 148</b>

(a) Net income equals comprehensive income.

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

## CONDENSED STATEMENTS OF CASH FLOWS

### Kentucky Utilities Company

(Unaudited)  
(Millions of Dollars)

	Six Months Ended June 30,	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 142	\$ 148
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	150	138
Amortization	5	2
Deferred income taxes and investment tax credits	29	9
Other	(2)	(1)
Change in current assets and current liabilities		
Accounts receivable	14	4
Accounts payable	(8)	11
Accounts payable to affiliates	(15)	(12)
Unbilled revenues	4	16
Fuel, materials and supplies	(6)	(5)
Regulatory assets and liabilities, net	(19)	37
Taxes payable	(2)	4
Accrued interest	3	—
Other	1	(11)
Other operating activities		
Defined benefit plans - funding	(2)	(52)
Expenditures for asset retirement obligations	(33)	(16)
Other assets	1	(1)
Other liabilities	8	3
Net cash provided by operating activities	<u>270</u>	<u>274</u>
<b>Cash Flows from Investing Activities</b>		
Expenditures for property, plant and equipment	(305)	(266)
Net cash used in investing activities	<u>(305)</u>	<u>(266)</u>
<b>Cash Flows from Financing Activities</b>		
Issuance of long-term debt	306	—
Net increase (decrease) in short-term debt	(235)	88
Payment of common stock dividends to parent	(91)	(136)
Contributions from parent	68	45
Other financing activities	(4)	—
Net cash provided by (used in) financing activities	<u>44</u>	<u>(3)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>9</b>	<b>5</b>
Cash and Cash Equivalents at Beginning of Period	14	15
Cash and Cash Equivalents at End of Period	<u>\$ 23</u>	<u>\$ 20</u>

#### Supplemental Disclosure of Cash Flow Information

Significant non-cash transactions:

Accrued expenditures for property, plant and equipment at June 30,	\$ 52	\$ 55
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*The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.*

## CONDENSED BALANCE SHEETS Kentucky Utilities Company

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

	June 30, 2019	December 31, 2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 23	\$ 14
Accounts receivable (less reserve: 2019, \$2; 2018, \$2)		
Customer	120	129
Other	27	34
Unbilled revenues	88	92
Fuel, materials and supplies	128	121
Prepayments	16	11
Regulatory assets	5	4
<b>Total Current Assets</b>	<b>407</b>	<b>405</b>
<b>Property, Plant and Equipment</b>		
Regulated utility plant	8,042	7,895
Less: accumulated depreciation - regulated utility plant	1,403	1,382
Regulated utility plant, net	6,639	6,513
Construction work in progress	490	503
<b>Property, Plant and Equipment, net</b>	<b>7,129</b>	<b>7,016</b>
<b>Other Noncurrent Assets</b>		
Regulatory assets	423	418
Goodwill	607	607
Other intangibles	30	31
Other noncurrent assets	95	63
<b>Total Other Noncurrent Assets</b>	<b>1,155</b>	<b>1,119</b>
<b>Total Assets</b>	<b>\$ 8,691</b>	<b>\$ 8,540</b>

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, 2019	December 31, 2018
<b>Liabilities and Equity</b>		
<b>Current Liabilities</b>		
Short-term debt	\$ —	\$ 235
Long-term debt due within one year	96	96
Accounts payable	124	171
Accounts payable to affiliates	38	53
Customer deposits	33	32
Taxes	22	24
Regulatory liabilities	13	31
Interest	19	16
Asset retirement obligations	54	59
Other current liabilities	55	35
<b>Total Current Liabilities</b>	<b>454</b>	<b>752</b>
<b>Long-term Debt</b>	<b>2,528</b>	<b>2,225</b>
<b>Deferred Credits and Other Noncurrent Liabilities</b>		
Deferred income taxes	774	735
Investment tax credits	90	92
Asset retirement obligations	112	134
Regulatory liabilities	1,122	1,124
Other deferred credits and noncurrent liabilities	50	36
<b>Total Deferred Credits and Other Noncurrent Liabilities</b>	<b>2,148</b>	<b>2,121</b>
<b>Commitments and Contingent Liabilities (Notes 7 and 11)</b>		
<b>Stockholder's Equity</b>		
Common stock - no par value (a)	308	308
Additional paid-in capital	2,729	2,661
Earnings reinvested	524	473
<b>Total Equity</b>	<b>3,561</b>	<b>3,442</b>
<b>Total Liabilities and Equity</b>	<b>\$ 8,691</b>	<b>\$ 8,540</b>

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at June 30, 2019 and December 31, 2018.

*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	Total
<b>March 31, 2019</b>	37,818	\$ 308	\$ 2,689	\$ 515	\$ 3,512
Net income				61	61
Capital contributions from parent			40		40
Cash dividends declared on common stock				(52)	(52)
<b>June 30, 2019</b>	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,729</u>	<u>\$ 524</u>	<u>\$ 3,561</u>
<b>December 31, 2018</b>	37,818	\$ 308	\$ 2,661	\$ 473	\$ 3,442
Net income				142	142
Capital contributions from parent			68		68
Cash dividends declared on common stock				(91)	(91)
<b>June 30, 2019</b>	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,729</u>	<u>\$ 524</u>	<u>\$ 3,561</u>
<b>March 31, 2018</b>	37,818	\$ 308	\$ 2,616	\$ 441	\$ 3,365
Net income				61	61
Capital contributions from parent			45		45
Cash dividends declared on common stock				(57)	(57)
<b>June 30, 2018</b>	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,661</u>	<u>\$ 445</u>	<u>\$ 3,414</u>
<b>December 31, 2017</b>	37,818	\$ 308	\$ 2,616	\$ 433	\$ 3,357
Net income				148	148
Capital contributions from parent			45		45
Cash dividends declared on common stock				(136)	(136)
<b>June 30, 2018</b>	<u>37,818</u>	<u>\$ 308</u>	<u>\$ 2,661</u>	<u>\$ 445</u>	<u>\$ 3,414</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)**

**Index to Combined Notes to Condensed Financial Statements**

The notes to the condensed financial statements that follow are a combined presentation. The following list indicates the Registrants to which the notes apply:

	Registrant				
	PPL	PPL Electric	LKE	LG&E	KU
1. Interim Financial Statements	x	x	x	x	x
2. Summary of Significant Accounting Policies	x	x	x	x	x
3. Segment and Related Information	x	x	x	x	x
4. Revenue from Contracts with Customers	x	x	x	x	x
5. Earnings Per Share	x				
6. Income 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	x
10. Defined Benefits	x	x	x	x	x
11. Commitments and Contingencies	x	x	x	x	x
12. Related Party Transactions		x	x	x	x
13. Other Income (Expense) - net	x				
14. Fair Value Measurements	x	x	x	x	x
15. Derivative Instruments and Hedging Activities	x	x	x	x	x
16. Asset Retirement Obligations	x		x	x	x
17. Accumulated Other Comprehensive Income (Loss)	x				
18. New Accounting Guidance Pending Adoption	x	x	x	x	x

**1. Interim Financial Statements**

*(All Registrants)*

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

The accompanying unaudited condensed financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with GAAP are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2018 is derived from that Registrant's 2018 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 2018 Form 10-K. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results to be expected for the full year ending December 31, 2019 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 2018 Form 10-K and should be read in conjunction with those disclosures.

### Restricted Cash and Cash Equivalents (PPL and PPL Electric)

#### *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, 2019	December 31, 2018	June 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 406	\$ 621	\$ 20	\$ 267
Restricted cash - current (a)	3	3	2	2
Restricted cash - noncurrent (a)	19	19	—	—
Total Cash, Cash Equivalents and Restricted Cash	\$ 428	\$ 643	\$ 22	\$ 269

(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."

### **New Accounting Guidance Adopted**

(All Registrants)

#### Accounting for Leases

Effective January 1, 2019, the Registrants adopted accounting guidance that requires lessees to recognize a right-of-use asset and lease liability for leases, unless determined to meet the definition of a short-term lease. For income statement purposes, the FASB retained a dual model for lessees, requiring leases to be classified as either operating or finance. Operating leases result in straight-line expense recognition. Currently, all Registrant leases are operating leases.

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

In adopting this new guidance, the Registrants elected to use the following practical expedients:

- The Registrants did not re-assess the lease classifications or initial direct costs of existing leases. The Registrants also did not re-assess existing contracts for leases or lease classification.
- The Registrants did not evaluate land easements that were not previously accounted for as leases under the new guidance. New land easements are evaluated under the new guidance beginning January 1, 2019.

See Note 9 for the required disclosures resulting from the adoption of the new guidance.

(PPL, LKE, LG&E & KU)

The following table shows the amounts recorded on the Balance Sheets as of January 1, 2019 as a result of the adoption of the new lease guidance using a modified retrospective transition method with transition applied as of the beginning of the period of adoption:



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	PPL	LKE	LG&E	KU
Right-of-Use Asset (a)	\$ 81	\$ 56	\$ 23	\$ 31
Lease Liability- Current (b)	23	18	9	9
Lease Liability- Noncurrent (c)	67	46	18	26

- (a) Right-of-Use Assets are recorded in "Other noncurrent assets" on the Balance Sheets.  
(b) Current lease liabilities are recorded in "Other current liabilities" on the Balance Sheets.  
(c) Noncurrent lease liabilities are recorded in "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

(All Registrants)

**Improvements to Accounting for Hedging Activities**

Effective January 1, 2019, the Registrants adopted accounting guidance, using a modified retrospective approach, which reduces complexity when applying hedge accounting as well as improving the transparency of an entity's risk management activities. This guidance eliminates the separate measurement and reporting of hedge ineffectiveness for cash flow and net investment hedges and provides for the ability to perform subsequent qualitative effectiveness assessments. The guidance also allows entities to apply the short-cut method to partial-term fair value hedges of interest rate risk as well as expands the ability to apply the critical terms match method to cash flow hedges of groups of forecasted transactions.

See Note 15 for the additional disclosures of the income statement impacts of hedging activities required from the adoption of this guidance. Disclosures related to ineffectiveness are no longer required. Other impacts of adopting this guidance were not material.

**3. Segment and Related Information**

(PPL)

See Note 2 in PPL's 2018 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	
	2019	2018	2019	2018
<b>Operating Revenues from external customers</b>				
U.K. Regulated	\$ 541	\$ 584	\$ 1,124	\$ 1,199
Kentucky Regulated	732	743	1,577	1,615
Pennsylvania Regulated	521	517	1,166	1,156
Corporate and Other	9	4	15	4
<b>Total</b>	<b>\$ 1,803</b>	<b>\$ 1,848</b>	<b>\$ 3,882</b>	<b>\$ 3,974</b>
<b>Net Income</b>				
U.K. Regulated (a)	\$ 284	\$ 394	\$ 548	\$ 591
Kentucky Regulated	97	77	214	210
Pennsylvania Regulated	94	75	215	223
Corporate and Other	(34)	(31)	(70)	(57)
<b>Total</b>	<b>\$ 441</b>	<b>\$ 515</b>	<b>\$ 907</b>	<b>\$ 967</b>

- (a) Includes unrealized gains and losses from hedging foreign currency economic activity. See Note 15 for additional information.

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

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	June 30, 2019	December 31, 2018
Assets		
U.K. Regulated (a)	\$ 17,134	\$ 16,700
Kentucky Regulated	15,296	15,078
Pennsylvania Regulated	11,371	11,257
Corporate and Other (b)	403	361
<b>Total</b>	<b>\$ 44,204</b>	<b>\$ 43,396</b>

(a) Includes \$12.6 billion and \$12.4 billion of net PP&E as of June 30, 2019 and December 31, 2018. WPD is not subject to accounting for the effects of certain types of regulation as prescribed by GAAP.

(b) Primarily consists of unallocated items, including cash, PP&E, goodwill, the elimination of inter-segment transactions as well as the assets of Safari Energy.

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

PPL Electric has two operating segments, distribution and transmission, which 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)*

See Note 3 in PPL's 2018 Form 10-K for a discussion of the principal activities from which the Registrants and PPL's segments generate their revenues.

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.

	2019 Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 1,803	\$ 521	\$ 732	\$ 334	\$ 406
Revenues derived from:					
Alternative revenue programs (b)	(20)	(2)	(18)	(3)	(15)
Other (c)	(10)	(2)	(6)	(3)	(3)
<b>Revenues from Contracts with Customers</b>	<b>\$ 1,773</b>	<b>\$ 517</b>	<b>\$ 708</b>	<b>\$ 328</b>	<b>\$ 388</b>

	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)
<b>Revenues from Contracts with Customers</b>	<b>\$ 1,844</b>	<b>\$ 515</b>	<b>\$ 748</b>	<b>\$ 339</b>	<b>\$ 415</b>

	2019 Six Months				
	PPL	PPL Electric	LKE	LG&E	KU
Operating Revenues (a)	\$ 3,882	\$ 1,166	\$ 1,577	\$ 744	\$ 856
Revenues derived from:					
Alternative revenue programs (b)	(26)	(6)	(20)	(5)	(15)
Other (c)	(19)	(5)	(10)	(4)	(6)
<b>Revenues from Contracts with Customers</b>	<b>\$ 3,837</b>	<b>\$ 1,155</b>	<b>\$ 1,547</b>	<b>\$ 735</b>	<b>\$ 835</b>

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	2018 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 \$541 million and \$1,124 million for the three and six months ended June 30, 2019 and \$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 include the transmission formula rate for PPL Electric, the ECR and DSM programs for LKE, LG&E and KU, the GLT program for LG&E, and the generation formula rate for KU. This line item shows the over/under collection of these rate mechanisms with over-collections of revenue shown as positive amounts in the table above and under-collections shown as negative amounts.
- (c) Represents additional revenues outside the scope of revenues from contracts with customers such as leases and other miscellaneous revenues.

As discussed in Note 2 in PPL's 2018 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 footnotes to the tables above.

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

	2019 Three Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 510	\$ —	\$ —	\$ —	\$ —
Residential	572	301	271	138	133
Commercial	302	87	215	108	107
Industrial	156	15	141	43	98
Other (b)	117	13	66	29	37
Wholesale - municipal	4	—	4	—	4
Wholesale - other (c)	11	—	11	10	9
Transmission	101	101	—	—	—
Revenues from Contracts with Customers	\$ 1,773	\$ 517	\$ 708	\$ 328	\$ 388

	2018 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

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	2019 Six Months				
	PPL	PPL Electric	LKE	LG&E	KU
Licensed energy suppliers (a)	\$ 1,066	\$ —	\$ —	\$ —	\$ —
Residential	1,350	708	642	327	315
Commercial	621	182	439	229	210
Industrial	306	32	274	87	187
Other (b)	232	27	136	62	74
Wholesale - municipal	32	—	32	—	32
Wholesale - other (c)	24	—	24	30	17
Transmission	206	206	—	—	—
Revenues from Contracts with Customers	\$ 3,837	\$ 1,155	\$ 1,547	\$ 735	\$ 835

	2018 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, 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.

PPL Electric's revenues from contracts with customers are further disaggregated by distribution and transmission, which were \$416 million and \$101 million for the three months ended June 30, 2019 and \$949 million and \$206 million for the six months ended June 30, 2019. PPL Electric's revenue from contracts with customers disaggregated by distribution and transmission 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.

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.

	Three Months		Six Months	
	2019	2018	2019	2018
PPL	\$ 2	\$ 3	\$ 11	\$ 13
PPL Electric	—	3	6	10
LKE	1	1	3	3
LG&E	—	—	1	1
KU	1	1	2	2

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

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	PPL	PPL Electric	LKE	LG&E	KU
Contract liabilities at December 31, 2018	\$ 42	\$ 23	\$ 9	\$ 5	\$ 4
Contract liabilities at June 30, 2019	47	22	9	5	4
Revenue recognized during the six months ended June 30, 2019 that was included in the contract liability balance at December 31, 2018	29	11	9	5	4
Contract liabilities at December 31, 2017	\$ 29	\$ 19	\$ 8	\$ 4	\$ 4
Contract liabilities at June 30, 2018	38	14	8	4	3
Revenue recognized during the six months ended June 30, 2018 that was included in the contract liability balance at December 31, 2017	18	8	8	4	4

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

At June 30, 2019, PPL had \$56 million of performance obligations attributable to Corporate and Other that have not been satisfied. Of this amount, PPL expects to recognize approximately \$49 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. These securities also include the PPL common stock forward sale agreements entered into in May 2018. See Note 8 in PPL's 2018 Form 10-K 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	
	2019	2018	2019	2018
<b>Income (Numerator)</b>				
Net income	\$ 441	\$ 515	\$ 907	\$ 967
Less amounts allocated to participating securities	1	—	1	1
Net income available to PPL common shareowners - Basic and Diluted	\$ 440	\$ 515	\$ 906	\$ 966
<b>Shares of Common Stock (Denominator)</b>				
Weighted-average shares - Basic EPS	721,785	699,006	721,406	696,772
Add incremental non-participating securities:				
Share-based payment awards	897	173	960	491
Forward sale agreements	8,233	1,797	8,070	898
Weighted-average shares - Diluted EPS	730,915	700,976	730,436	698,161
<b>Basic EPS</b>				
Net Income available to PPL common shareowners	\$ 0.61	\$ 0.74	\$ 1.26	\$ 1.39
<b>Diluted EPS</b>				
Net Income available to PPL common shareowners	\$ 0.60	\$ 0.73	\$ 1.24	\$ 1.38

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

	Three Months		Six Months	
	2019	2018	2019	2018
Stock-based compensation plans (a)	52	12	642	488
DRIP	417	526	875	1,011

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

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	
	2019	2018	2019	2018
Stock options	—	441	—	336
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	
	2019	2018	2019	2018
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	\$ 110	\$ 138	\$ 235	\$ 257
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	10	21	25
Valuation allowance adjustments (b)	7	5	14	12
Impact of lower U.K. income tax rates	(6)	(6)	(14)	(13)
Amortization of excess deferred federal and state income taxes	(10)	(9)	(21)	(19)
Deferred tax impact of state tax reform (a)	—	9	—	9
Interest benefit on U.K. financing entities	(3)	(4)	(6)	(9)
Kentucky recycling credit, net of federal income tax expense (b)	(20)	—	(20)	—
Other	(2)	(1)	1	(3)
Total increase (decrease)	(26)	4	(25)	2
Total income taxes	\$ 84	\$ 142	\$ 210	\$ 259

(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.

(b) During the second quarter of 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky, with the benefit recognized during the period in which the assets are placed into service. A valuation allowance of \$3 million has been recognized related to this credit due to insufficient Kentucky taxable income projected at LKE.

(PPL Electric)

	Three Months		Six Months	
	2019	2018	2019	2018
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	\$ 26	\$ 22	\$ 61	\$ 63
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	10	8	23	24
Amortization of excess deferred income taxes	(4)	(3)	(8)	(8)
Other	—	—	(2)	(3)
Total increase (decrease)	6	5	13	13
Total income taxes	\$ 32	\$ 27	\$ 74	\$ 76

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(LKE)

	Three Months		Six Months	
	2019	2018	2019	2018
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	\$ 23	\$ 25	\$ 56	\$ 63
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	3	10	11
Deferred tax impact of state tax reform (a)	—	9	—	9
Valuation allowance adjustments (b)	3	—	3	—
Amortization of excess deferred federal and state income taxes	(6)	(6)	(12)	(11)
Kentucky recycling credit, net of federal income tax expense (b)	(20)	—	(20)	—
Other	(1)	—	(2)	(2)
Total increase (decrease)	(20)	6	(21)	7
Total income taxes	\$ 3	\$ 31	\$ 35	\$ 70

- (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.
- (b) During the second quarter of 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky, with the benefit recognized during the period in which the assets are placed into service. A portion of this amount has been reserved due to insufficient Kentucky taxable income projected at LKE.

(LG&E)

	Three Months		Six Months	
	2019	2018	2019	2018
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	\$ 12	\$ 13	\$ 29	\$ 33
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	2	5	6
Valuation allowance adjustments (a)	15	—	15	—
Amortization of excess deferred federal and state income taxes	(2)	(3)	(5)	(5)
Kentucky recycling credit, net of federal income tax expense (a)	(15)	—	(15)	—
Other	—	—	—	(1)
Total increase (decrease)	—	(1)	—	—
Total income taxes	\$ 12	\$ 12	\$ 29	\$ 33

- (a) During the second quarter of 2019, LG&E recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky, with the benefit recognized during the period in which the assets are placed into service. This amount has been reserved due to insufficient Kentucky taxable income projected at LG&E.

(KU)

	Three Months		Six Months	
	2019	2018	2019	2018
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	\$ 16	\$ 16	\$ 37	\$ 39
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	2	7	7
Valuation allowance adjustments (a)	5	—	5	—
Amortization of excess deferred federal and state income taxes	(4)	(3)	(7)	(6)
Kentucky recycling credit, net of federal income tax expense (a)	(5)	—	(5)	—
Other	(1)	(1)	(1)	(2)
Total increase (decrease)	(2)	(2)	(1)	(1)
Total income taxes	\$ 14	\$ 14	\$ 36	\$ 38

- (a) During the second quarter of 2019, KU recorded a deferred income tax benefit associated with a project placed into service that prepares a generation waste material for reuse and, as a result, qualifies for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky, with the benefit recognized during the period in which the assets are placed into service. This amount has been reserved due to insufficient Kentucky taxable income projected at KU.

**Other**

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

The IRS issued proposed regulations for certain provisions of the TCJA in 2018, including interest deductibility and Global Intangible Low-Taxed Income (GILTI). In June 2019, the IRS issued both final and new proposed regulations relating to GILTI. PPL has determined that neither these final nor proposed regulations 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 in the fourth quarter of 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 expressed its views on these proposed regulations in a comment letter addressed to the IRS on February 26, 2019.

**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	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
<b>Current Regulatory Assets:</b>				
Gas supply clause	\$ 12	\$ 12	\$ —	\$ —
Smart meter rider	11	11	11	11
Plant outage costs	13	10	—	—
Other	7	3	6	—
<b>Total current regulatory assets (a)</b>	<b>\$ 43</b>	<b>\$ 36</b>	<b>\$ 17</b>	<b>\$ 11</b>
<b>Noncurrent Regulatory Assets:</b>				
Defined benefit plans	\$ 944	\$ 963	\$ 548	\$ 558
Storm costs	46	56	18	22
Unamortized loss on debt	40	45	18	22
Interest rate swaps	23	20	—	—
Terminated interest rate swaps	84	87	—	—
Accumulated cost of removal of utility plant	205	200	205	200
AROs	296	273	—	—
Act 129 compliance rider	16	19	16	19
Other	8	10	—	3
<b>Total noncurrent regulatory assets</b>	<b>\$ 1,662</b>	<b>\$ 1,673</b>	<b>\$ 805</b>	<b>\$ 824</b>



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	PPL		PPL Electric			
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018		
<b>Current Regulatory Liabilities:</b>						
Generation supply charge	\$ 20	\$ 33	\$ 20	\$ 33		
Environmental cost recovery	5	16	—	—		
Universal service rider	14	27	14	27		
TCJA customer refund	7	20	6	3		
Storm damage expense rider	3	5	3	5		
Generation formula rate	—	7	—	—		
Other	11	14	—	6		
<b>Total current regulatory liabilities</b>	<b>\$ 60</b>	<b>\$ 122</b>	<b>\$ 43</b>	<b>\$ 74</b>		
<b>Noncurrent Regulatory Liabilities:</b>						
Accumulated cost of removal of utility plant	\$ 670	\$ 674	\$ —	\$ —		
Power purchase agreement - OVEC	55	59	—	—		
Net deferred taxes	1,791	1,826	610	629		
Defined benefit plans	50	37	9	5		
Terminated interest rate swaps	70	72	—	—		
TCJA customer refund (b)	42	41	42	41		
Other	7	5	—	—		
<b>Total noncurrent regulatory liabilities</b>	<b>\$ 2,685</b>	<b>\$ 2,714</b>	<b>\$ 661</b>	<b>\$ 675</b>		
	<b>LKE</b>		<b>LG&amp;E</b>		<b>KU</b>	
	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
<b>Current Regulatory Assets:</b>						
Plant outage costs	\$ 13	\$ 10	\$ 9	\$ 7	\$ 4	\$ 3
Gas supply clause	12	12	12	12	—	—
Other	1	3	—	2	1	1
<b>Total current regulatory assets</b>	<b>\$ 26</b>	<b>\$ 25</b>	<b>\$ 21</b>	<b>\$ 21</b>	<b>\$ 5</b>	<b>\$ 4</b>
<b>Noncurrent Regulatory Assets:</b>						
Defined benefit plans	\$ 396	\$ 405	\$ 244	\$ 249	\$ 152	\$ 156
Storm costs	28	34	17	20	11	14
Unamortized loss on debt	22	23	14	15	8	8
Interest rate swaps	23	20	23	20	—	—
Terminated interest rate swaps	84	87	49	51	35	36
AROs	296	273	85	75	211	198
Other	8	7	2	1	6	6
<b>Total noncurrent regulatory assets</b>	<b>\$ 857</b>	<b>\$ 849</b>	<b>\$ 434</b>	<b>\$ 431</b>	<b>\$ 423</b>	<b>\$ 418</b>

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	LKE		LG&E		KU	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
<b>Current Regulatory Liabilities:</b>						
Environmental cost recovery	\$ 5	\$ 16	\$ 2	\$ 6	\$ 3	\$ 10
Fuel adjustment clause	6	—	—	—	6	—
TCJA customer refund	1	17	—	7	1	10
Generation formula rate	—	7	—	—	—	7
Other	5	8	2	4	3	4
<b>Total current regulatory liabilities</b>	<b>\$ 17</b>	<b>\$ 48</b>	<b>\$ 4</b>	<b>\$ 17</b>	<b>\$ 13</b>	<b>\$ 31</b>
<b>Noncurrent Regulatory Liabilities:</b>						
Accumulated cost of removal of utility plant	\$ 670	\$ 674	\$ 274	\$ 279	\$ 396	\$ 395
Power purchase agreement - OVEC	55	59	38	41	17	18
Net deferred taxes	1,181	1,197	551	557	630	640
Defined benefit plans	41	32	—	—	41	32
Terminated interest rate swaps	70	72	35	36	35	36
Other	7	5	4	2	3	3
<b>Total noncurrent regulatory liabilities</b>	<b>\$ 2,024</b>	<b>\$ 2,039</b>	<b>\$ 902</b>	<b>\$ 915</b>	<b>\$ 1,122</b>	<b>\$ 1,124</b>

- (a) For PPL, these amounts are included in "Other current assets" on the Balance Sheets.  
(b) 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 initial liability was recorded during the second quarter of 2018. 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**

*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. LG&E's and KU's applications also sought to include changes associated with the TCJA and state tax reform in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when new base rates go into effect. The elimination of the TCJA bill credit mechanism will result in an estimated annual electricity revenue increase of approximately \$58 million at KU and increases in electricity and gas revenues of approximately \$40 million and \$12 million at LG&E. The applications were based on a forecasted test year of May 1, 2019 through April 30, 2020 with a requested return-on-equity of 10.42%.

On March 1, 2019, LG&E and KU, along with substantially all intervening parties to the proceeding, filed stipulation and recommendation agreements (stipulations) with the KPSC resolving all material issues with the parties. In addition to terminating the TCJA bill credit mechanism, the proposed stipulations provided for increases in annual revenue requirements associated with base electricity rates of approximately \$58 million at KU and increases in annual base electricity and gas rates of approximately \$4 million and \$20 million at LG&E, based on a return-on-equity of 9.725%.

On April 30, 2019, the KPSC issued orders ruling on open issues and approving the proposed stipulations filed in March 2019. The orders provide for increases in annual revenue requirements associated with base electricity rates of \$56 million at KU and increases associated with base electricity and gas rates of \$2 million and \$19 million at LG&E. With the termination of the TCJA bill credit mechanism, this represents annual revenue increases of \$187 million (\$114 million at KU and \$73 million at LG&E). The new base rates and all elements of the orders became effective on May 1, 2019.

## Federal Matters

### *FERC Transmission Rate Filing*

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

In August 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 sought 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 granted to such customers for either LG&E and KU or MISO transmission charges incurred depending upon the direction of certain transmission service incurred by the municipalities. 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. On March 21, 2019, the FERC issued an Order granting LG&E's and KU's request to remove the on-going credits, conditioned upon the implementation by LG&E and KU of a transition mechanism for certain existing power supply arrangements, which transition mechanism will be subject to FERC review and approval. On July 12, 2019, LG&E and KU submitted their proposed transition mechanism to the FERC for review and approval. LG&E and KU currently receive recovery of waivers and credits provided through other rate mechanisms.

*(PPL and PPL Electric)*

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

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

In September 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 February 21, 2019, the FERC issued an Order concluding that the MISO transmission charges in question did qualify for credits under the rate schedule and required LG&E and KU to reimburse the customer for the eligible credits. The reimbursement was not significant and was completed by LG&E and KU in March 2019. LG&E and KU currently receive recovery for such credits through other rate mechanisms.

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

In November 2018, the FERC issued a Policy Statement stating that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA would be addressed in a Notice of Proposed Rulemaking. Also in November 2018, the FERC issued the Notice of Proposed Rulemaking, which proposed 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 to incorporate reductions to corporate income tax rates as a result of the TCJA and HB 487. The FERC approved this request effective June 1, 2019. LG&E and KU do not anticipate the impact of the TCJA and HB 487 related to their FERC-jurisdictional rates to be significant.

On February 28, 2019, PPL Electric filed with the FERC proposed revisions to its transmission formula rate template pursuant to Section 205 of the Federal Power Act and Section 35.13 of the Rules and Regulation of the FERC. Specifically, PPL Electric proposed to modify its formula rate to permit the return or recovery of excess or deficient accumulated deferred income taxes (ADIT) resulting from the TCJA and permit PPL Electric to prospectively account for the income tax expense associated with the depreciation of the equity component of the AFUDC. On April 29, 2019, the FERC accepted the proposed revisions to the

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formula rate template, which were effective June 1, 2019, as well as the proposed adjustments to ADIT, effective January 1, 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 and six months ended June 30, 2019, PPL Electric purchased \$271 million and \$619 million of accounts receivable from alternate suppliers. During the three and six months ended June 30, 2018, PPL Electric purchased \$297 million and \$673 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 listed in the borrowed column below are recorded as "Short-term debt" on the Balance Sheets, except for amounts borrowed under LG&E's Term Loan Facility which were recorded as "Long-term debt due within one year" on the December 31, 2018 Balance Sheet. The following credit facilities were in place at:

	June 30, 2019					December 31, 2018		
	Expiration Date	Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
<b>PPL</b>								
<b>U.K.</b>								
WPD plc								
Syndicated Credit Facility (a)	Jan. 2023	£ 210	£ 158	£ —	£ 52	£ 157	£ —	
WPD (South West)								
Syndicated Credit Facility	July 2021	245	—	—	245	—	—	
WPD (East Midlands)								
Syndicated Credit Facility (b)	July 2021	300	81	—	219	38	—	
WPD (West Midlands)								
Syndicated Credit Facility (c)	July 2021	300	33	—	267	—	—	
Uncommitted Credit Facilities								
		100	—	4	96	—	4	
Total U.K. Credit Facilities (d)		£ 1,155	£ 272	£ 4	£ 879	£ 195	£ 4	
<b>U.S.</b>								
PPL Capital Funding								
Syndicated Credit Facility	Jan. 2024	\$ 1,450	\$ —	\$ 1,014	\$ 436	\$ —	\$ 669	
Bilateral Credit Facility	Mar. 2020	100	—	15	85	—	15	
Total PPL Capital Funding Credit Facilities		\$ 1,550	\$ —	\$ 1,029	\$ 521	\$ —	\$ 684	

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	Expiration Date	June 30, 2019				December 31, 2018		
		Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	
<b>PPL Electric</b>								
Syndicated Credit Facility	Jan. 2024	\$ 650	\$ —	\$ 186	\$ 464	\$ —	\$ 1	
<b>LG&amp;E</b>								
Syndicated Credit Facility	Jan. 2024	\$ 500	\$ —	\$ 96	\$ 404	\$ —	\$ 279	
Term Loan Credit Facility	Oct. 2019	—	—	—	—	200	—	
Total LG&E Credit Facilities		\$ 500	\$ —	\$ 96	\$ 404	\$ 200	\$ 279	
<b>KU</b>								
Syndicated Credit Facility	Jan. 2024	\$ 400	\$ —	\$ —	\$ 400	\$ —	\$ 235	
Letter of Credit Facility	Oct. 2020	198	—	198	—	—	198	
Total KU Credit Facilities		\$ 598	\$ —	\$ 198	\$ 400	\$ —	\$ 433	

- (a) The amounts borrowed at June 30, 2019 and December 31, 2018 were USD-denominated borrowings of \$200 million for both periods, which bore interest at 3.25% and 3.17%.  
(b) The amounts borrowed at June 30, 2019 and December 31, 2018 were GBP-denominated borrowings which equated to \$102 million and \$48 million and bore interest at 1.13% and 1.12%.  
(c) The amount borrowed at June 30, 2019 was GBP-denominated borrowings which equated to \$41 million and bore interest at 1.13%.  
(d) At June 30, 2019, the unused capacity under the U.K. credit facilities was \$1.1 billion.

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:

	June 30, 2019				December 31, 2018	
	Weighted - Average Interest Rate	Capacity	Commercial Paper Issuances	Unused Capacity	Weighted - Average Interest Rate	Commercial Paper Issuances
PPL Capital Funding	2.74%	\$ 1,500	\$ 1,014	\$ 486	2.82%	\$ 669
PPL Electric	2.59%	650	185	465	—	—
LG&E	2.59%	350	96	254	2.94%	279
KU	—	350	—	350	2.94%	235
Total		\$ 2,850	\$ 1,295	\$ 1,555		\$ 1,183

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

See Note 12 for discussion of intercompany borrowings.

**Long-term Debt**

(PPL)

In June 2019, WPD plc executed and drew £50 million under a 5-year term loan facility due 2024 at a rate of 2.189%, to be reset quarterly as detailed in the terms of the agreement. The borrowing equated to \$63 million at the time of drawdown, net of fees. The proceeds were used for general corporate purposes.

(PPL, LKE and LG&E)

In April 2019, LG&E issued \$400 million of 4.25% First Mortgage Bonds due 2049. LG&E received proceeds of \$396 million, net of discounts and underwriting fees, which were used to repay commercial paper and LG&E's term loan.

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In April 2019, the County of Jefferson, Kentucky remarketed \$128 million of Pollution Control Revenue Bonds, 2001 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.85% through their mandatory purchase date of April 1, 2021.

In June 2019, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$31 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series A (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.65% through their mandatory purchase date of June 1, 2021.

In June 2019, the Louisville/Jefferson County Metro Government of Kentucky remarketed \$35 million of Environmental Facilities Revenue Refunding Bonds, 2007 Series B (Louisville Gas and Electric Company Project) due 2033 previously issued on behalf of LG&E. The bonds were remarketed at a long-term rate and will bear interest at 1.65% through their mandatory purchase date of June 1, 2021.

In June 2019, LG&E issued a notice to bondholders of its intention to convert the \$40 million Louisville/Jefferson County Metro Government of Kentucky Pollution Control Revenue Bonds, 2005 Series A (Louisville Gas and Electric Company Project) to a weekly interest rate, as permitted under the loan documents. The conversion was completed on August 1, 2019. In connection with the conversion, LG&E purchased these bonds from the remarketing agent and will hold them until a later date, at which time LG&E may refinance, remarket or further convert such bonds.

*(PPL, LKE and KU)*

In April 2019, KU reopened its 4.375% First Mortgage Bonds due 2045 and issued an additional \$300 million of this series. KU received proceeds of \$303 million, including premiums and underwriting fees, which were used to repay commercial paper and for other general corporate purposes.

*(PPL)*

### **Equity Securities**

#### ATM Program

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of \$1.0 billion of its common stock through an at-the-market offering program; including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. There were no issuances under the ATM program for the six months ended June 30, 2019.

### **Distributions**

In May 2019, PPL declared a quarterly common stock dividend, payable July 1, 2019, of 41.25 cents per share (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.

### **9. Leases**

*(All Registrants)*

The Registrants determine whether contractual arrangements contain a lease by evaluating whether those arrangements either implicitly or explicitly identify an asset, whether the Registrants have the right to obtain substantially all of the economic benefits from use of the asset throughout the term of the arrangement, and whether the Registrants have the right to direct the use of the asset. Renewal options are included in the lease term if it is reasonably certain the Registrants will exercise those options. Periods for which the Registrants are reasonably certain not to exercise termination options are also included in the lease term. The Registrants have certain agreements with lease and non-lease components, such as office space leases, which are generally accounted for separately.

LKE, LG&E and KU have entered into various operating leases primarily for office space, vehicles and railcars. The leases generally have fixed payments with expiration dates ranging from 2019 to 2025, some of which have options to extend the leases from one year to ten years and some have options to terminate at LKE's, LG&E's and KU's discretion. For leases that

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existed as of December 31, 2018, payments associated with renewal options are not included in the measurement of the lease liability and right-of-use (ROU) asset.

WPD and Safari Energy have entered into various operating leases primarily for office space, land easements and telecom assets. These leases generally have fixed payments with expiration dates ranging from 2019 through 2028, except for the land agreements which extend through 2116.

PPL Electric also has operating leases which do not have a significant impact to its operations.

**Short-term Leases**

Short-term leases are leases with a term that is 12 months or less and do not include a purchase option or option to extend the initial term of the lease to greater than 12 months that the Registrants are reasonably certain to exercise. The Registrants have made an accounting policy election to not recognize the ROU asset and the lease liability arising from leases classified as short-term. Expenses related to short-term leases are included in the tables below.

**Discount Rate**

The discount rate for a lease is the rate implicit in the lease unless that rate cannot be readily determined. In that case, the Registrants are required to use their incremental borrowing rate, which is the rate the Registrants would have to pay to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment.

The Registrants receive secured borrowing rates from financial institutions based on their applicable credit profiles. The Registrants use the secured rate which corresponds with the term of the applicable lease.

**Practical Expedients**

See Note 2 for information on the adoption of the new lease guidance as well as the practical expedients the Registrants have elected as part of the transition.

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

**Lessee Transactions**

The following table provides the components of lease cost for the Registrants' operating leases for the periods ended June 30, 2019.

	2019 Three Months			
	PPL	LKE	LG&E	KU
Lease cost:				
Operating lease cost	\$ 7	\$ 5	\$ 2	\$ 3
Short-term lease cost	2	1	1	—
<b>Total lease cost</b>	<b>\$ 9</b>	<b>\$ 6</b>	<b>\$ 3</b>	<b>\$ 3</b>

	2019 Six Months			
	PPL	LKE	LG&E	KU
Lease cost:				
Operating lease cost	\$ 14	\$ 12	\$ 6	\$ 6
Short-term lease cost	2	1	1	—
<b>Total lease cost</b>	<b>\$ 16</b>	<b>\$ 13</b>	<b>\$ 7</b>	<b>\$ 6</b>

The following table provides other key information related to the Registrants' operating leases at June 30, 2019.

	PPL	LKE	LG&E	KU
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	\$ 14	\$ 12	\$ 6	\$ 6
Right-of-use asset obtained in exchange for new operating lease liabilities	7	6	2	4

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The following table provides the total future minimum rental payments for operating leases, as well as a reconciliation of these undiscounted cash flows to the lease liabilities recognized on the Balance Sheets as of June 30, 2019.

	PPL	LKE	LG&E	KU
2019 (a)	\$ 20	\$ 18	\$ 7	\$ 10
2020	19	14	5	8
2021	14	10	4	6
2022	9	7	3	4
2023	8	6	2	3
2024	7	5	2	3
Thereafter	22	4	1	2
Total	\$ 99	\$ 64	\$ 24	\$ 36
Weighted-average discount rate	3.77%	3.97%	3.89%	4.02%
Weighted-average remaining lease term (in years)	9	5	5	5
Current lease liabilities (b)	\$ 20	\$ 16	\$ 6	\$ 9
Non-current lease liabilities (b)	62	42	17	24
Right-of-use assets (c)	74	50	19	29

- (a) Represents future minimum lease payments for the remainder of 2019.  
 (b) Current lease liabilities are included in "Other Current Liabilities" on the Balance Sheets. Non-current lease liabilities are included in "Other deferred credits and noncurrent liabilities" on the Balance Sheets. The difference between the total future minimum lease payments and the recorded lease liabilities is due to the impact of discounting.  
 (c) Right-of-use assets are included in "Other noncurrent assets" on the Balance Sheets.

At December 31, 2018, the total future minimum rental payments for all operating leases were estimated to be:

	PPL	LKE	LG&E	KU
2019	\$ 26	\$ 20	\$ 10	\$ 10
2020	21	15	6	9
2021	15	11	4	7
2022	13	7	3	4
2023	8	6	3	3
Thereafter	33	11	4	6
Total	\$ 116	\$ 70	\$ 30	\$ 39

**Lessor Transactions**

Third parties lease land from LKE, LG&E and KU at certain generation plants to produce refined coal used to generate electricity. The leases are operating leases and expire in 2021. Payments are allocated among lease and non-lease components as stated in the agreements. Lease payments are fixed or are determined based on the amount of refined coal used in electricity generation at the facility. Payments received are primarily recorded as a regulatory liability and are amortized in accordance with regulatory approvals.

WPD leases property and telecom assets to third parties, which generally expire through 2029. These leases are operating leases. Generally, lease payments are fixed and include only a lease component.

At June 30, 2019, PPL, LKE, LG&E and KU expect to receive the following lease payments over the remaining term of their operating lease agreements:



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	PPL	LKE	LG&E	KU
2019 (a)	\$ 7	\$ 4	\$ —	\$ 4
2020	13	7	—	7
2021	11	6	1	5
2022	4	—	—	—
2023	4	1	—	—
2024	4	—	—	—
Thereafter	12	—	—	—
Total	\$ 55	\$ 18	\$ 1	\$ 16
Lease income recognized for the three months ended June 30, 2019	\$ 6	\$ 4	\$ 2	\$ 2
Lease income recognized for the six months ended June 30, 2019	\$ 9	\$ 6	\$ 2	\$ 4

(a) Represents future minimum lease payments for the remainder of 2019.

## 10. 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 June 30:

	Pension Benefits								
	Three Months				Six Months				
	U.S.		U.K.		U.S.		U.K.		
	2019	2018	2019	2018	2019	2018	2019	2018	
<b>PPL</b>									
Service cost	\$ 12	\$ 15	\$ 17	\$ 21	\$ 25	\$ 31	\$ 34	\$ 42	
Interest cost	41	39	48	47	82	78	95	94	
Expected return on plan assets	(61)	(62)	(150)	(150)	(122)	(124)	(298)	(300)	
Amortization of:									
Prior service cost	2	3	—	—	4	5	—	—	
Actuarial loss	14	19	23	38	27	41	47	77	
Net periodic defined benefit costs (credits) before settlements	8	14	(62)	(44)	16	31	(122)	(87)	
Settlements	—	—	—	—	1	—	—	—	
Net periodic defined benefit costs (credits)	\$ 8	\$ 14	\$ (62)	\$ (44)	\$ 17	\$ 31	\$ (122)	\$ (87)	

	Pension Benefits			
	Three Months		Six Months	
	2019	2018	2019	2018
<b>LKE</b>				
Service cost	\$ 5	\$ 5	\$ 11	\$ 12
Interest cost	17	16	33	32
Expected return on plan assets	(26)	(25)	(51)	(51)
Amortization of:				
Prior service cost	2	2	4	4
Actuarial loss (a)	6	8	10	18
Net periodic defined benefit costs (b)	\$ 4	\$ 6	\$ 7	\$ 15

(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 \$1 million for the three and six months ended June 30, 2019 and \$2 million and \$6 million for the three and six months ended June 30, 2018. This difference is recorded as a regulatory asset.

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- (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 for the three and six months ended June 30, 2018. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount is being amortized in accordance with existing regulatory practice.

	Pension Benefits			
	Three Months		Six Months	
	2019	2018	2019	2018
<b>LG&amp;E</b>				
Service cost	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	3	3	6	6
Expected return on plan assets	(5)	(6)	(11)	(11)
Amortization of:				
Prior service cost	2	2	3	3
Actuarial loss (a)	1	1	3	3
Net periodic defined benefit costs (b)	\$ 2	\$ 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 three and six months ended June 30, 2019 and \$1 million for the six months ended June 30, 2018. 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 for the three and six months ended June 30, 2018. In accordance with existing regulatory accounting treatment, LG&E has maintained the settlement charge in regulatory assets. The amount is being amortized in accordance with existing regulatory practice.

	Other Postretirement Benefits			
	Three Months		Six Months	
	2019	2018	2019	2018
<b>PPL</b>				
Service cost	\$ 1	\$ 3	\$ 2	\$ 4
Interest cost	5	7	11	10
Expected return on plan assets	(4)	(9)	(9)	(13)
Amortization of prior service cost	—	1	—	—
Net periodic defined benefit costs	\$ 2	\$ 2	\$ 4	\$ 1

	LKE			
	Three Months		Six Months	
	2019	2018	2019	2018
Service cost	\$ 1	\$ 1	\$ 2	\$ 2
Interest cost	2	2	4	4
Expected return on plan assets	(2)	(2)	(4)	(4)
Amortization of:				
Prior service cost	1	1	1	1
Actuarial gain	(1)	(1)	(1)	(1)
Net periodic defined benefit costs	\$ 1	\$ 1	\$ 2	\$ 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 12 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	
	2019	2018	2019	2018
PPL Electric	\$ 2	\$ 3	\$ 5	\$ 7
LG&E	1	2	2	4
KU	—	1	—	2

*(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 13 for additional information.

## 11. 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.

#### Talen Litigation (PPL)

##### *Background*

In September 2013, one of PPL's former subsidiaries, PPL Montana entered into an agreement to sell its hydroelectric generating facilities. In June 2014, PPL and PPL Energy Supply, the parent company of PPL Montana, entered into various definitive agreements with affiliates of Riverstone to spin off PPL Energy Supply and ultimately combine it with Riverstone's competitive power generation businesses to form a stand-alone company named Talen Energy. In November 2014, after executing the spinoff agreements but prior to the closing of the spinoff transaction, PPL Montana closed the sale of its hydroelectric generating facilities. Subsequently, on June 1, 2015, the spinoff of PPL Energy Supply was completed. Following the spinoff transaction, PPL had no continuing ownership interest in or control of PPL Energy Supply. In connection with the spinoff transaction, PPL Montana became Talen Montana, LLC (Talen Montana), a subsidiary of Talen Energy. Talen Energy Marketing also became a subsidiary of Talen Energy as a result of the June 2015 spinoff of PPL Energy Supply. Talen Energy has owned and operated both Talen Montana and Talen Energy Marketing since the spinoff. At the time of the spinoff, affiliates of Riverstone acquired a 35% ownership interest in Talen Energy. Riverstone subsequently acquired the remaining interests in Talen Energy in a take private transaction in December 2016.

##### *Talen Montana, LLC v. PPL Corporation et al.*

On October 29, 2018, Talen Montana filed a complaint against PPL and certain of its affiliates and current and former officers and directors in the First Judicial District of the State of Montana, Lewis & Clark County (Talen Direct Action). Talen Montana alleges that in November 2014, PPL and certain officers and directors improperly distributed to PPL's subsidiaries \$733 million of the proceeds from the sale of Talen Montana's (then PPL Montana's) hydroelectric generating facilities, rendering PPL Montana insolvent. The complaint includes claims for, among other things, breach of fiduciary duty; aiding and abetting breach of fiduciary duty; breach of an LLC agreement; breach of the implied duty of good faith and fair dealing; tortious interference; negligent misrepresentation; and constructive fraud. Talen Montana is seeking unspecified damages, including punitive damages, and other relief. In December 2018, PPL moved to dismiss the Talen Direct Action for lack of jurisdiction and, in the alternative, to dismiss because Delaware is the appropriate forum to decide this case. In January 2019, Talen Montana dismissed without prejudice all current and former PPL Corporation directors from the case. The parties engaged in limited jurisdictional discovery, and oral argument regarding the PPL parties' motion to dismiss is scheduled for August 22, 2019.

##### *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

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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 engaged in limited discovery in connection with the motion to remand, at the conclusion of which the parties will complete their briefings on the matter to enable the Court to consider the remand motion.

### *PPL Corporation et al. vs. Riverstone Holdings LLC, Talen Energy Corporation et al.*

On November 30, 2018, PPL, certain PPL affiliates, and certain current and former officers and directors (PPL plaintiffs) filed a complaint in the Court of Chancery of the State of Delaware seeking various forms of relief against Riverstone, Talen Energy and certain of their affiliates (Delaware Action). In the complaint, the PPL plaintiffs ask the Delaware Court of Chancery for declaratory and injunctive relief. This includes a declaratory judgment that, under the separation agreement governing the spinoff of PPL Energy Supply, all related claims that arise must be heard in Delaware; that the statute of limitations in Delaware and the spinoff agreement bar these claims at this point; that PPL is not liable for the claims in either the Talen Direct Action or the Talen Putative Class Action as PPL Montana was solvent at all relevant times; and that the separation agreement requires that Talen Energy indemnify PPL for all losses arising from the debts of Talen Montana, among other things. PPL's complaint also seeks damages against Riverstone for interfering with the separation agreement and against Riverstone affiliates for breach of the implied covenant of good faith and fair dealing. The complaint was subsequently amended on January 11, 2019 and March 20, 2019, including to add claims related to indemnification with respect to the Talen Direct Action and the Talen Putative Class Action (together, the Montana Actions), request a declaration that the Montana Actions are time-barred under the spinoff agreements, and allege additional facts to support the tortious interference claim. In April 2019, the defendants filed motions to dismiss the amended complaint. On July 11, 2019, the Court heard oral arguments from the parties regarding the motions to dismiss. The Court is expected to rule on the matters raised in the motions to dismiss within ninety days of the oral argument date.

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 continue 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.

### 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 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.

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

In July 2017, the Kentucky Waterways Alliance and the Sierra Club filed a citizen suit complaint against KU in the U.S. District Court for the Eastern District of Kentucky (U.S. District Court) alleging discharges at the E.W. Brown plant in violation of the Clean Water Act and the plant's water discharge permit and alleging contamination that may present an imminent and substantial endangerment in violation of the RCRA. The plaintiffs' suit relates to prior notices of intent to file a citizen suit submitted in October and November 2015 and October 2016. These plaintiffs sought injunctive relief ordering KU to take all actions necessary to comply with the Clean Water Act and RCRA, including ceasing the discharges in question, abating effects associated with prior discharges and eliminating the alleged imminent and substantial endangerment. These plaintiffs also sought assessment of civil penalties and an award of litigation costs and attorney fees. In December 2017 the U.S. District Court issued an Order dismissing the Clean Water Act and RCRA complaints against KU in their entirety. In January 2018, the plaintiffs appealed the dismissal Order to the U.S. Court of Appeals for the Sixth Circuit. In September 2018, the U.S. Court of Appeals for the Sixth Circuit issued its ruling affirming the lower court's decision to dismiss the Clean Water Act claims but reversing its dismissal of the RCRA claims against KU and remanding the latter to the U.S. District Court. In October 2018, KU filed a petition for rehearing to the U.S. Court of Appeals for the Sixth Circuit regarding the RCRA claims. In November 2018, the U.S. Court of Appeals for the Sixth Circuit denied KU's petition for rehearing regarding the RCRA claims. 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 was 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. KU submitted the required aquatic study and risk assessment, conducted by an independent third-party consultant, to the KEEC in June 2019 finding that discharges from the E.W. Brown plant have not had any significant impact on Herrington Lake and that the water in the lake is safe for recreational use and meets safe drinking water standards. However, until the KEEC assesses the study and issues any regulatory determinations, PPL, LKE and KU are unable to determine whether additional remedial measures will be required at the E.W. Brown plant.

### **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,

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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.

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. In April 2018, the EPA designated Jefferson County, Kentucky (Louisville) as being in nonattainment with the ozone standard. Although implementation of the 2015 ozone standard could potentially require the addition of SCRs at LG&E's Mill Creek station, PPL, LKE and LG&E are unable to determine what, if any, compliance measures may ultimately be required until the Louisville Metro Air Pollution District prepares a state implementation plan.

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. In July 2018, the EPA approved Kentucky's 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. In September 2018, the EPA announced its

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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.

### *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. 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 reduction credits to offset emissions associated with WPD's operations. The cost of these credits is not significant and is included in WPD's current operating expenses.

The current U.K. carbon allowance scheme ended on March 31, 2019, with the last reporting year being April 2018 through March 2019. It is now being replaced by reporting requirements under the Streamlined Energy and Carbon Reporting framework along with a tax (called "Climate Change Levy") which is equivalent to the current cost of the carbon reduction credits. The cost of the tax is not significant and will be included in WPD's operating expenses.

### *The EPA's Affordable Clean Energy Rule*

In 2015, the EPA finalized rules imposing stringent GHG emission standards for both new and existing power plants based on plant specific energy efficiency upgrades, fuel switching from coal to natural gas, and deployment of renewable generation (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. In July 2019, the EPA rescinded the Clean Power Plan and finalized the Affordable Clean Energy (ACE) Rule as a replacement with respect to existing sources. The ACE Rule gives states broad latitude in establishing emission guidelines providing for plant-specific efficiency upgrades or "heat-rate improvements" that will reduce GHG emissions per unit of electricity generated. The ACE Rule provides a list of "candidate technologies" that will be considered by the states in establishing standards of performance on a case by case basis at individual power plants. States are generally allowed three years to submit state plans establishing standards of performance. While compliance deadlines will be imposed on a plant-specific basis, the EPA anticipates that most facilities will be required to demonstrate compliance within two years of plan approval. In the final rule, the EPA did not finalize its proposed new criteria for determining whether such efficiency projects would trigger New Source Review and thus be subject to more stringent emission controls. Instead, the agency intends to take final action on the proposed New Source Review revisions in a separate final action at a later date.

The Kentucky General Assembly passed legislation in April 2014 limiting the measures that the Kentucky Energy and Environment Cabinet may consider in setting performance standards to comply with federal requirements for GHG emission reductions. The legislation provides that such state GHG performance standards will be strictly based on emission reductions, efficiency measures and other improvements available at each power plant. These statutory restrictions are broadly consistent with the EPA's ACE Rule.

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LG&E and KU are monitoring developments at the state and federal level. Until legal challenges and regulatory determinations relating to repeal and replacement of the Clean Power Plan are completed 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 August 9, 2019. The parties are conducting initial negotiations regarding potential settlement of the matter. PPL, LKE and LG&E are unable to predict the outcome of this matter or the potential impact on operations of the Mill Creek plant, including increased capital or operating costs, and potential civil penalties or remedial measures, if any.

### Water/Waste

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

#### **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. In March 2018, the EPA proposed amendments to the CCR rule primarily relating to impoundment closure and remediation requirements. In July 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. In July 2019, the EPA released proposed amendments to the CCR Rule relating to reporting, public information, boron standards, beneficial use and waste piles. The EPA has announced that additional amendments to the rule will be proposed. In August 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. As a result of subsequent challenges to the CCR Rule amendments, on March 13, 2019, the D.C. Circuit Court granted the EPA's motion for voluntary remand of the amended rule without voiding it. Consequently, the CCR Rule amendments, including the extended compliance deadline, will remain in place as the EPA considers further rule amendments and revisions. 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, the Kentucky Energy and Environment Cabinet issued a new state rule relating to CCR management aimed at reflecting the requirements of the federal CCR rule. As a result of a subsequent legal challenge in January 2018, the Franklin County, Kentucky Court issued an opinion invalidating certain procedural elements of the rule. LG&E and KU presently operate their facilities under continuing permits authorized under the former program and do not currently anticipate material impacts as a result of the judicial ruling. The Kentucky Energy and Environment Cabinet has announced it expects to propose new state rules in 2019 aimed at addressing the procedural deficiencies identified by the court and providing the regulatory framework necessary for operation of the state CCR program in lieu of the federal CCR Rule, as provided by applicable law.

LG&E and KU received KPSC approval for a compliance plan providing for the closure of impoundments at the Mill Creek, Trimble County, E.W. Brown, and Ghent stations, and construction of process water management facilities at those plants. In addition to the foregoing measures required for compliance with the federal CCR rule, KU also received KPSC approval for its plans to close impoundments at the retired Green River, Pineville and Tyrone plants to comply with applicable state law. Since



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2017, LG&E and KU have commenced closure of many of the subject impoundments and have completed closure of some of the smaller impoundments. LG&E and KU expect to commence closure of the remaining impoundments no later than October 31, 2020. LG&E and KU generally expect to complete impoundment closures within five years of commencement, although a longer period may be required to complete closure of some facilities.

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' 2018 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.

### *Clean Water Act Jurisdiction*

For several years the EPA has been seeking to clarify which discharges are subject to the Clean Water Act. The issue is primarily significant to PPL's operations with respect to discharges to groundwater from ash basins. There has been substantial disagreement over whether Clean Water Act jurisdiction covers discharges of contaminants to groundwater which reach surface water via a direct hydrologic connection. In particular, various environmental groups and other stakeholders argue that leaking impoundments located at coal-fired power plants are subject to Clean Water Act jurisdiction, while facility owners and many states contend that such situations are more appropriately addressed under the EPA's CCR Rule and state regulatory programs.

Most recently, on April 12, 2019, the EPA released an interpretive statement concluding that Clean Water Act jurisdiction does not cover discharges to groundwater regardless of any hydrologic connection between groundwater and jurisdictional surface water.

The issue has been subject to extensive litigation in federal courts including the citizen suit filed against KU with respect to its E.W. Brown plant, as discussed under "Legal Matters" - "E.W. Brown Environmental Claims" above, resulting in contradictory rulings by courts in different jurisdictions. On February 19, 2019, the U.S. Supreme Court agreed to review a lower court ruling on the issue. The U.S. Supreme Court's ruling in that case, likely to be issued in the first half of 2020, is expected to provide additional clarification on the scope of Clean Water Act jurisdiction. Extending Clean Water Act jurisdiction to 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 outcome of current or future regulatory proceedings or litigation 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 proposed rule is expected to be finalized by the fall of 2019. On April 12, 2019, the U.S. Court of Appeals for the Fifth Circuit vacated and remanded portions of the ELGs concerning legacy wastewater and CCR leachate. The EPA

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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)*

### 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.

PPL Electric had a recorded liability of \$11 million at June 30, 2019 and December 31, 2018 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 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 June 30, 2019. "Exposure" represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee. The probability of expected payment/performance under each of these guarantees is remote except for "WPD guarantee of pension and other obligations of unconsolidated entities," for which PPL has a total recorded liability of \$5 million at June 30, 2019 and \$6 million at December 31, 2018. For reporting purposes, on a consolidated basis, all guarantees of PPL Electric, LKE, LG&E and KU also apply to PPL, and all guarantees of LG&E and KU also apply to LKE.

	<b>Exposure at June 30, 2019</b>	<b>Expiration Date</b>
<b><u>PPL</u></b>		
Indemnifications related to the WPD Midlands acquisition	(a)	
WPD indemnifications for entities in liquidation and sales of assets	\$ 10 (b)	2021
WPD guarantee of pension and other obligations of unconsolidated entities	79 (c)	
<b><u>PPL Electric</u></b>		
Guarantee of inventory value	10 (d)	2020
<b><u>LKE</u></b>		
Indemnification of lease termination and other divestitures	200 (e)	2021
<b><u>LG&amp;E and KU</u></b>		
LG&E and KU obligation of shortfall related to OVEC	(f)	

- (a) Indemnifications related to certain liabilities, including a specific unresolved tax issue and those relating to properties and assets owned by the seller that were transferred to WPD Midlands in connection with the acquisition. A cross indemnity has been received from the seller on the tax issue. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped and the expiration date is not specified in the transaction documents.
- (b) Indemnification to the liquidators and certain others for existing liabilities or expenses or liabilities arising during the liquidation process. The indemnifications are limited to distributions made from the subsidiary to its parent either prior or subsequent to liquidation or are not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases where the agreements provide for specific limits.

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

- (c) Relates to certain obligations of discontinued or modified electric associations that were guaranteed at the time of privatization by the participating members. Costs are allocated to the members and can be reallocated if an existing member becomes insolvent. At June 30, 2019, WPD has recorded an estimated discounted liability for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements, and as a result, the exposure has been estimated.
- (d) A third-party logistics firm provides inventory procurement and fulfillment services. The logistics firm 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.

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- (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 \$112 million at June 30, 2019, consisting of LG&E's share of \$77 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 2018 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 Registrants believe 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.

**12. 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 services companies, the costs of directly assignable and attributable services are charged to the respective recipients as direct support costs. General costs that cannot be directly assigned or 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	
	2019	2018	2019	2018
PPL Electric from PPL Services	\$ 13	\$ 15	\$ 29	\$ 31
LKE from PPL Services	5	7	14	14
PPL Electric from PPL EU Services	37	41	74	76
LG&E from LKS	37	39	75	77
KU from LKS	41	43	84	85

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.

## **Intercompany Borrowings**

*(PPL Electric)*

PPL Energy Funding maintains a \$650 million revolving line of credit with a PPL Electric subsidiary. No balance was outstanding at June 30, 2019 and December 31, 2018. The interest rates on borrowings are equal to one-month LIBOR plus a spread. Interest income is reflected in "Interest Income from Affiliate" on the Income Statement.

*(LKE)*

LKE maintains a \$375 million revolving line of credit with a PPL Energy Funding subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. At June 30, 2019 and December 31, 2018, \$203 million and \$113 million were outstanding and reflected in "Notes payable with affiliates" on the Balance Sheets. The interest rates on the outstanding borrowings at June 30, 2019 and December 31, 2018 were 3.93% and 3.85%. Interest expense on the revolving line of credit was not significant for the three and six months ended June 30, 2019 and 2018.

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, 2019 and December 31, 2018. The interest rate on the loan is based on the PPL affiliate's credit rating and equal to one-month LIBOR plus a spread.

LKE maintains ten-year notes of \$400 million and \$250 million with a PPL affiliate with interest rates of 3.5% and 4%. At June 30, 2019 and December 31, 2018, the notes were reflected in "Long-term debt to affiliate" on the Balance Sheets. Interest expense on the \$400 million note was \$4 million and \$7 million for the three and six months ended June 30, 2019 and \$3 million and \$7 million for the three and six months ended June 30, 2018. Interest expense on the \$250 million note was \$3 million and \$5 million for the three and six months ended June 30, 2019 and \$2 million for the three and six months ended June 30, 2018.

### **VEBA Funds Receivable** *(PPL Electric)*

In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA, to be used to pay medical claims of active bargaining unit employees. Based on PPL Electric's participation in PPL's Other Postretirement Benefit plan, PPL Electric was allocated a portion of the excess funds from PPL Services. These funds have been recorded as an intercompany receivable on PPL Electric's Balance Sheets. The receivable balance decreases as PPL Electric pays incurred medical claims and is reimbursed by PPL Services. The intercompany receivable balance associated with these funds was \$40 million as of June 30, 2019, of which \$10 million was reflected in "Accounts receivable from affiliates" and \$30 million was reflected in "Other noncurrent assets" on the PPL Electric Balance Sheet. The intercompany receivable balance associated with these funds was \$45 million as of December 31, 2018, of which \$10 million was reflected in "Account receivable from affiliates" and \$35 million was reflected in "Other noncurrent assets" on the PPL Electric Balance Sheet.

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

See Note 10 for discussions regarding intercompany allocations associated with defined benefits.

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

(PPL)

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

	Three Months		Six Months	
	2019	2018	2019	2018
Other Income				
Economic foreign currency exchange contracts (Note 15)	\$ 45	\$ 164	\$ 12	\$ 52
Defined benefit plans - non-service credits (Note 10)	80	66	160	134
Interest income	3	2	9	2
AFUDC - equity component	6	5	11	10
Miscellaneous	3	—	9	1
Total Other Income	137	237	201	199
Other Expense				
Charitable contributions	—	1	2	5
Miscellaneous	6	2	16	3
Total Other Expense	6	3	18	8
Other Income (Expense) - net	\$ 131	\$ 234	\$ 183	\$ 191

**14. 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 in each Registrant's 2018 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, 2019				December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
<b>PPL</b>								
Assets								
Cash and cash equivalents	\$ 406	\$ 406	\$ —	\$ —	\$ 621	\$ 621	\$ —	\$ —
Restricted cash and cash equivalents (a)	22	22	—	—	22	22	—	—
Special use funds (a):								
Money market fund	1	1	—	—	59	59	—	—
Commingled debt fund measured at NAV (b)	32	—	—	—	—	—	—	—
Commingled equity fund measured at NAV (b)	28	—	—	—	—	—	—	—
Total special use funds	61	1	—	—	59	59	—	—

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	June 30, 2019				December 31, 2018			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Price risk management assets (c):								
Foreign currency contracts	181	—	181	—	202	—	202	—
Cross-currency swaps	161	—	161	—	135	—	135	—
<b>Total price risk management assets</b>	<b>342</b>	<b>—</b>	<b>342</b>	<b>—</b>	<b>337</b>	<b>—</b>	<b>337</b>	<b>—</b>
<b>Total assets</b>	<b>\$ 831</b>	<b>\$ 429</b>	<b>\$ 342</b>	<b>\$ —</b>	<b>\$ 1,039</b>	<b>\$ 702</b>	<b>\$ 337</b>	<b>\$ —</b>

Liabilities

Price risk management liabilities (c):								
Interest rate swaps	\$ 31	\$ —	\$ 31	\$ —	\$ 20	\$ —	\$ 20	\$ —
Foreign currency contracts	—	—	—	—	2	—	2	—
<b>Total price risk management liabilities</b>	<b>\$ 31</b>	<b>\$ —</b>	<b>\$ 31</b>	<b>\$ —</b>	<b>\$ 22</b>	<b>\$ —</b>	<b>\$ 22</b>	<b>\$ —</b>

**PPL Electric**

Assets

Cash and cash equivalents	\$ 20	\$ 20	\$ —	\$ —	\$ 267	\$ 267	\$ —	\$ —
Restricted cash and cash equivalents (a)	2	2	—	—	2	2	—	—
<b>Total assets</b>	<b>\$ 22</b>	<b>\$ 22</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 269</b>	<b>\$ 269</b>	<b>\$ —</b>	<b>\$ —</b>

**LKE**

Assets

Cash and cash equivalents	\$ 32	\$ 32	\$ —	\$ —	\$ 24	\$ 24	\$ —	\$ —
<b>Total assets</b>	<b>\$ 32</b>	<b>\$ 32</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 24</b>	<b>\$ 24</b>	<b>\$ —</b>	<b>\$ —</b>

Liabilities

Price risk management liabilities:								
Interest rate swaps	\$ 23	\$ —	\$ 23	\$ —	\$ 20	\$ —	\$ 20	\$ —
<b>Total price risk management liabilities</b>	<b>\$ 23</b>	<b>\$ —</b>	<b>\$ 23</b>	<b>\$ —</b>	<b>\$ 20</b>	<b>\$ —</b>	<b>\$ 20</b>	<b>\$ —</b>

**LG&E**

Assets

Cash and cash equivalents	\$ 9	\$ 9	\$ —	\$ —	\$ 10	\$ 10	\$ —	\$ —
<b>Total assets</b>	<b>\$ 9</b>	<b>\$ 9</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 10</b>	<b>\$ 10</b>	<b>\$ —</b>	<b>\$ —</b>

Liabilities

Price risk management liabilities:								
Interest rate swaps	\$ 23	\$ —	\$ 23	\$ —	\$ 20	\$ —	\$ 20	\$ —
<b>Total price risk management liabilities</b>	<b>\$ 23</b>	<b>\$ —</b>	<b>\$ 23</b>	<b>\$ —</b>	<b>\$ 20</b>	<b>\$ —</b>	<b>\$ 20</b>	<b>\$ —</b>

**KU**

Assets

Cash and cash equivalents	\$ 23	\$ 23	\$ —	\$ —	\$ 14	\$ 14	\$ —	\$ —
<b>Total assets</b>	<b>\$ 23</b>	<b>\$ 23</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 14</b>	<b>\$ 14</b>	<b>\$ —</b>	<b>\$ —</b>

- (a) Current portion is included in "Other current assets" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
- (b) In accordance with accounting guidance, certain investments that are measured at fair value using net asset value per share (NAV), or its equivalent, have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
- (c) Current portion is included in "Price risk management assets" and "Other current liabilities" and noncurrent portion is included in "Price risk management assets" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

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**Special Use Funds**

(PPL)

The special use funds are investments restricted for paying active union employee medical costs. In May 2018, PPL received a favorable private letter ruling from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA to be used to pay medical claims of active bargaining unit employees. In 2019, the funds are invested primarily in commingled debt and equity funds measured at NAV. In 2018, the funds were invested in money market funds.

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

(PPL, LKE, LG&E and KU)

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

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

The carrying amounts of long-term debt on the Balance Sheets and their estimated fair values are set forth below. Long-term debt is classified as Level 2. The effect of third-party credit enhancements is not included in the fair value measurement.

	June 30, 2019		December 31, 2018	
	Carrying Amount (a)	Fair Value	Carrying Amount (a)	Fair Value
PPL	\$ 21,101	\$ 24,980	\$ 20,599	\$ 22,939
PPL Electric	3,695	4,212	3,694	3,901
LKE	6,002	6,652	5,502	5,768
LG&E	2,004	2,223	1,809	1,874
KU	2,624	2,940	2,321	2,451

(a) Amounts are net of debt issuance costs.

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

**15. 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, WPD, 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.

- 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 2018 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 \$32 million obligation to return cash collateral under master netting arrangements at June 30, 2019 and a \$40 million obligation to return cash collateral under master netting arrangements at December 31, 2018.

PPL had no obligation to post cash collateral under master netting arrangements at June 30, 2019 and December 31, 2018.

LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at June 30, 2019 and December 31, 2018.

LKE, LG&E and KU had no obligation to post cash collateral under master netting arrangements at June 30, 2019 and December 31, 2018.

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

## **Interest Rate Risk**

*(All Registrants)*

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

### **Cash Flow Hedges (PPL)**

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. At June 30, 2019, PPL held an aggregate notional value in interest rate swap contracts of £250 million (approximately \$316 million based on spot rates) that mature in 2031 to hedge interest payments of WPD East Midland's anticipated September 2019 debt issuance.

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At June 30, 2019, PPL held an aggregate notional value in cross-currency interest rate swap contracts of \$702 million that range in maturity from 2021 through 2028 to hedge the interest payments and principal of WPD's U.S. dollar-denominated senior notes.

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

For the three and six months ended June 30, 2019 and 2018, PPL had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At June 30, 2019, the amount of accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months is insignificant. Amounts are reclassified as the hedged interest expense is recorded.

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

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Because realized gains and losses from the swaps, including terminated swap contracts, are recoverable through regulated rates, any subsequent changes in fair value of these derivatives are included in regulatory assets or liabilities until they are realized as interest expense. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income at the time the underlying hedged interest expense is recorded. At June 30, 2019, LG&E held contracts with a notional amount of \$147 million that range in maturity through 2033.

### **Foreign Currency Risk**

(PPL)

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

### **Net Investment Hedges**

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. There were no contracts outstanding at June 30, 2019.

At June 30, 2019 and December 31, 2018, PPL had \$31 million of accumulated net investment hedge after tax gains (losses) that were included in the foreign currency translation adjustment component of AOCI.

### **Economic Activity**

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge GBP-denominated anticipated earnings. At June 30, 2019, the total exposure hedged by PPL was approximately £1.2 billion (approximately \$1.7 billion based on contracted rates). These contracts have termination dates ranging from July 2019 through December 2020.

### **Accounting and Reporting**

(All Registrants)

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless NPNS is elected. NPNS contracts 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, 2019 and December 31, 2018.

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See Note 1 in each Registrant's 2018 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, 2019				December 31, 2018			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	\$ —	\$ 8	\$ —	\$ 5	\$ —	\$ —	\$ —	\$ 4
Cross-currency swaps (b)	6	—	—	—	6	—	—	—
Foreign currency contracts	—	—	127	—	—	—	103	2
Total current	6	8	127	5	6	—	103	6
Noncurrent:								
Price Risk Management								
Assets/Liabilities (a):								
Interest rate swaps (b)	—	—	—	18	—	—	—	16
Cross-currency swaps (b)	155	—	—	—	129	—	—	—
Foreign currency contracts	—	—	54	—	—	—	99	—
Total noncurrent	155	—	54	18	129	—	99	16
Total derivatives	\$ 161	\$ 8	\$ 181	\$ 23	\$ 135	\$ —	\$ 202	\$ 22

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

(b) Excludes accrued interest, if applicable.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets and regulatory liabilities for the period ended June 30, 2019.

Derivative Relationships	Three Months	Six Months	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Six Months
	Derivative Gain (Loss) Recognized in OCI	Derivative Gain (Loss) Recognized in OCI		Gain (Loss) Reclassified from AOCI into Income	Gain (Loss) Reclassified from AOCI into Income
Cash Flow Hedges:					
Interest rate swaps	\$ (8)	\$ (8)	Interest expense	\$ (2)	\$ (4)
Cross-currency swaps	51	28	Other income (expense) - net	35	7
Total	\$ 43	\$ 20		\$ 33	\$ 3
Net Investment Hedges:					
Foreign currency contracts	\$ 1	\$ 1			

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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	\$ 45	\$ 12
Interest rate swaps	Interest expense	(1)	(2)
	Total	\$ 44	\$ 10

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	\$ (2)	\$ (3)

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

Derivative Relationships	Three Months	Six Months	Location of Gain (Loss) Recognized in Income on Derivative	Three Months	Six Months
	Derivative Gain (Loss) Recognized in OCI	Derivative Gain (Loss) Recognized in OCI		Gain (Loss) Reclassified from AOCI into Income	Gain (Loss) Reclassified from AOCI into Income
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 table presents the effect of cash flow hedge activity on the Statement of Income for the period ended June 30, 2019.

	Location and Amount of Gain (Loss) Recognized in Income on Hedging Relationships			
	Three Months		Six Months	
	Interest Expense	Other Income (Expense) - net	Interest Expense	Other Income (Expense) - net
Total income and expense line items presented in the income statement in which the effect of cash flow hedges are recorded	\$ 246	\$ 131	\$ 487	\$ 183
The effects of cash flow hedges:				
Gain (Loss) on cash flow hedging relationships:				
Interest rate swaps:				
Amount of gain (loss) reclassified from AOCI to income	(2)	—	(4)	—
Cross-currency swaps:				
Hedged items	—	(35)	—	(7)
Amount of gain (loss) reclassified from AOCI to income	—	35	—	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.

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	June 30, 2019		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
<b>Current:</b>				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	\$ —	\$ 5	\$ —	\$ 4
Total current	—	5	—	4
<b>Noncurrent:</b>				
Price Risk Management				
Assets/Liabilities:				
Interest rate swaps	—	18	—	16
Total noncurrent	—	18	—	16
Total derivatives	\$ —	\$ 23	\$ —	\$ 20

The following tables present the pre-tax effect of derivatives not designated as cash flow hedges that are recognized in income or regulatory assets for the periods ended June 30, 2019.

Derivative Instruments	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Six Months
Interest rate swaps	Interest expense	\$ (1)	\$ (2)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ (2)	\$ (3)

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	Three Months	Six Months
Interest rate swaps	Interest expense	\$ (2)	\$ (3)

Derivative Instruments	Location of Gain (Loss) Recognized in Regulatory Assets	Three Months	Six Months
Interest rate swaps	Regulatory assets - noncurrent	\$ 1	\$ 5

(PPL, LKE, LG&E and KU)

**Offsetting Derivative Instruments**

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

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

	Assets				Liabilities			
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net
		Derivative Instruments	Cash Collateral Received			Derivative Instruments	Cash Collateral Pledged	
<b>June 30, 2019</b>								
<b>Treasury Derivatives</b>								
PPL	\$ 342	\$ —	\$ 32	\$ 310	\$ 31	\$ —	\$ —	\$ 31
LKE	—	—	—	—	23	—	—	23
LG&E	—	—	—	—	23	—	—	23

	Assets				Liabilities			
	Gross	Eligible for Offset		Net	Gross	Eligible for Offset		Net
		Derivative Instruments	Cash Collateral Received			Derivative Instruments	Cash Collateral Pledged	
<b>December 31, 2018</b>								
<b>Treasury Derivatives</b>								
PPL	\$ 337	\$ 2	\$ 40	\$ 295	\$ 22	\$ 2	\$ —	\$ 20
LKE	—	—	—	—	20	—	—	20
LG&E	—	—	—	—	20	—	—	20

**Credit Risk-Related Contingent Features**

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

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

*(PPL, LKE and LG&E)*

At June 30, 2019, derivative contracts in a net liability position that contain credit risk-related contingent features, collateral posted on those positions and the related effect of a decrease in credit ratings below investment grade are summarized as follows:

	PPL	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit risk-related contingent features	\$ 5	\$ 5	\$ 5
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)	5	5	5

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

## 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 11 for information on the CCR rule. LG&E also has AROs related to natural gas mains and wells. LG&E's and KU's transmission and distribution lines largely operate under perpetual property easement agreements, which do not generally require restoration upon removal of the property. Therefore, no material AROs are recorded for transmission and distribution assets. For LKE, LG&E and KU, all ARO accretion and depreciation expenses are reclassified as a regulatory asset. 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, 2018	\$ 347	\$ 296	\$ 103	\$ 193
Accretion	8	7	2	5
Effect of foreign exchange rates	(1)	—	—	—
Changes in estimated timing or cost	(6)	(3)	(4)	1
Obligations settled	(45)	(45)	(12)	(33)
Balance at June 30, 2019	\$ 303	\$ 255	\$ 89	\$ 166

## 17. Accumulated Other Comprehensive Income (Loss)

(PPL)

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	Defined benefit plans		Total
			Prior service costs	Actuarial gain (loss)	
<b>PPL</b>					
<b>March 31, 2019</b>	\$ (1,239)	\$ (2)	\$ (19)	\$ (2,387)	\$ (3,647)
Amounts arising during the period	(377)	35	—	(2)	(344)
Reclassifications from AOCI	—	(27)	1	21	(5)
Net OCI during the period	(377)	8	1	19	(349)
<b>June 30, 2019</b>	\$ (1,616)	\$ 6	\$ (18)	\$ (2,368)	\$ (3,996)
<b>December 31, 2018</b>	\$ (1,533)	\$ (7)	\$ (19)	\$ (2,405)	\$ (3,964)
Amounts arising during the period	(83)	16	—	(5)	(72)
Reclassifications from AOCI	—	(3)	1	42	40
Net OCI during the period	(83)	13	1	37	(32)
<b>June 30, 2019</b>	\$ (1,616)	\$ 6	\$ (18)	\$ (2,368)	\$ (3,996)
<b>March 31, 2018</b>	\$ (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)
<b>June 30, 2018</b>	\$ (1,223)	\$ (21)	\$ (7)	\$ (2,244)	\$ (3,495)
<b>December 31, 2017</b>	\$ (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)
<b>June 30, 2018</b>	\$ (1,223)	\$ (21)	\$ (7)	\$ (2,244)	\$ (3,495)



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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
	2019	2018	2019	2018	
<b>Qualifying derivatives</b>					
Interest rate swaps	\$ (2)	\$ (2)	\$ (4)	\$ (4)	Interest Expense
Cross-currency swaps	35	24	7	12	Other Income (Expense) - net
<b>Total Pre-tax</b>	<b>33</b>	<b>22</b>	<b>3</b>	<b>8</b>	
Income Taxes	(6)	(3)	—	(1)	
<b>Total After-tax</b>	<b>27</b>	<b>19</b>	<b>3</b>	<b>7</b>	
<b>Defined benefit plans</b>					
Prior service costs (a)	(1)	(1)	(1)	(1)	
Net actuarial loss (a)	(27)	(43)	(53)	(88)	
<b>Total Pre-tax</b>	<b>(28)</b>	<b>(44)</b>	<b>(54)</b>	<b>(89)</b>	
Income Taxes	6	9	11	18	
<b>Total After-tax</b>	<b>(22)</b>	<b>(35)</b>	<b>(43)</b>	<b>(71)</b>	
<b>Total reclassifications during the period</b>	<b>\$ 5</b>	<b>\$ (16)</b>	<b>\$ (40)</b>	<b>\$ (64)</b>	

(a) These AOCI components are included in the computation of net periodic defined benefit cost. See Note 10 for additional information.

## 18. New Accounting Guidance Pending Adoption

(All Registrants)

### Accounting for Financial Instrument Credit Losses

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

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. The Registrants are currently assessing the impact of adopting this guidance and will adopt this standard on January 1, 2020 with a modified retrospective approach through a cumulative-effect adjustment to retained earnings at the date of adoption. Key implementation activities in process include finalizing the population of financial instruments within the scope of this guidance and identifying potential differences between the Registrants' current credit loss models and the requirements of this guidance.

### 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. 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 will adopt this standard prospectively as of the beginning of the period adopted, which will be January 1, 2020. Key implementation activities in process of being completed

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include assessing the population of cloud computing hosting arrangements in the scope of this guidance and identifying and evaluating industry issues.

*(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. The Registrants will adopt this guidance on January 1, 2020. The Registrants are currently assessing the impact of adopting 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' 2018 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, 2019 with the same periods in 2018. For PPL, "Results of Operations" also includes "Segment Earnings" and "Adjusted Gross Margins" which provide a detailed analysis of earnings by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins" and provide explanations of the non-GAAP financial measures and a reconciliation of the non-GAAP financial measures to the most comparable GAAP measure. 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.

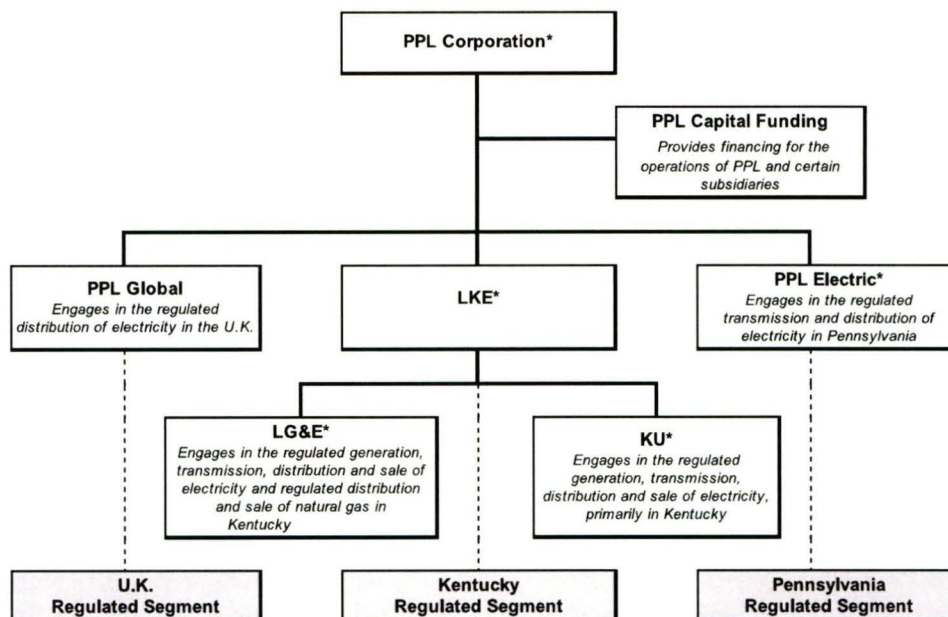
**Overview**

**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 and Virginia; 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.

*(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 and Virginia. KU is subject to regulation as a public

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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 Kentucky customers under the KU name and its Virginia customers under the Old Dominion Power name.

### **Business Strategy**

*(All Registrants)*

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

PPL's strategy, and that of the other Registrants, is to deliver best-in-sector operational performance, invest in a sustainable energy future, maintain a strong financial foundation, and engage and develop its people. PPL's business plan is designed to achieve growth by providing efficient, reliable and safe operations and strong customer service, maintaining constructive regulatory relationships and achieving timely recovery of costs. These businesses are expected to achieve strong, long-term growth in rate base in the U.S. and RAV in the U.K. Rate base growth is being driven by planned significant capital expenditures to maintain existing assets and improve system reliability and, for LKE, LG&E and KU, to comply with federal and state environmental regulations related to coal-fired electricity generation facilities.

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

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

Earnings generated by PPL's U.K. subsidiaries are subject to foreign currency translation risk. Because WPD's earnings represent such a significant portion of PPL's consolidated earnings, PPL enters into foreign currency contracts to economically hedge the value of the GBP versus the U.S. dollar. These hedges do not receive hedge accounting treatment under GAAP. See "Financial and Operational Developments - U.K. Membership in European Union" for additional discussion of the U.K. earnings hedging activity.

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

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

## Financial and Operational Developments

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

The IRS issued proposed regulations for certain provisions of the TCJA in 2018, including interest deductibility and Global Intangible Low-Taxed Income (GILTI). In June 2019, the IRS issued both final and new proposed regulations relating to GILTI. PPL has determined that neither these final nor proposed regulations 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 in the fourth quarter of 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 expressed its views on these proposed regulations in a comment letter addressed to the IRS on February 26, 2019.

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

Following a voter referendum in June 2016, the U.K. triggered Article 50 of the Lisbon Treaty to formally begin the process of leaving the European Union (EU), popularly referred to as Brexit. In November 2018, then U.K. Prime Minister Theresa May and the EU decided on a withdrawal agreement and a political declaration laying out the terms of the U.K.'s departure on March 29, 2019, and a transition period until December 2020. Any final withdrawal agreement and future trade relationship must be ratified by both the U.K. and EU parliaments.

The U.K. Parliament rejected the negotiated withdrawal agreement on three separate occasions. Following a series of Parliamentary indicative votes that failed to produce a clear majority for an alternative to the negotiated withdrawal agreement, on April 10, 2019, the U.K. requested to extend the Article 50 process until June 30, 2019. The EU approved a longer than requested extension until October 31, 2019. The U.K. can leave the EU earlier if a withdrawal agreement is ratified before the new deadline.

May announced her resignation as prime minister and leader of the Conservative Party on May 24, 2019, triggering a Conservative Party leadership contest for her replacement. May formally resigned on July 24, 2019, and was replaced by Boris Johnson, a former U.K. Foreign Secretary. While Johnson stated during his campaign that he is willing to leave the EU without an agreement, a majority in Parliament voted earlier this year to reject a no-deal outcome and could attempt to stop Johnson from taking the U.K. out of the EU without an agreement.

Significant uncertainty surrounds the status of negotiations and next steps in the Brexit process, particularly as the EU has elected a new president of the EU Commission and key personnel changes have occurred within the current Brexit negotiating team. If an agreement is not reached and ratified by October 31, 2019, the default position is that the U.K. will exit from the EU without a withdrawal agreement. The U.K. may also request a further extension of the Article 50 process, subject to approval from all of the EU's 27 remaining members. The U.K. could also choose to revoke Article 50 and remain a member of 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, particularly if the U.K. leaves the EU without a withdrawal agreement. 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 July 31, 2019, PPL's foreign exchange exposure related to budgeted earnings is 100% hedged for the remainder of 2019 at an average rate of \$1.41 per GBP and 63% hedged for 2020 at an average rate of \$1.46 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. RIIO-ED1, the current price control, with allowed revenues agreed with Ofgem runs through March 2023.

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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" in PPL's 2018 Form 10-K for additional information on the current price control and K-factor adjustment. In addition, an increase in inflation would have a positive effect on revenues and RAV as annual inflation adjustments are applied to both revenues and RAV (and real returns are earned on inflated RAV). This impact, however, would be partially offset by higher operation and maintenance and interest expense on index-linked debt. With respect to access to financing, WPD has substantial borrowing capacity under existing credit facilities and expects to continue to have access to all major financial markets. With respect to access to and cost of equipment and other materials, WPD management continues to review U.K. government issued advice on preparations for Brexit 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.

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

The businesses of LKE, LG&E and KU are subject to extensive federal, state and local environmental laws, rules and regulations, including those pertaining to CCRs, GHG, and ELGs. See Notes 7, 11 and 16 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 1,000 MW of coal-fired generating plants in Kentucky since 2015.

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

In November 2018, the FERC issued a Policy Statement stating that the appropriate ratemaking treatment for changes in accumulated deferred income taxes as a result of the TCJA would be addressed in a Notice of Proposed Rulemaking. Also in November 2018, the FERC issued the Notice of Proposed Rulemaking, which proposed 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 to incorporate reductions to corporate income tax rates as a result of the TCJA and HB 487. The FERC approved this request effective June 1, 2019. LG&E and KU do not anticipate the impact of the TCJA and HB 487 related to their FERC-jurisdictional rates to be significant.

On February 28, 2019, PPL Electric filed with the FERC proposed revisions to its transmission formula rate template pursuant to Section 205 of the Federal Power Act and Section 35.13 of the Rules and Regulation of the FERC. Specifically, PPL Electric proposed to modify its formula rate to permit the return or recovery of excess or deficient accumulated deferred income taxes (ADIT) resulting from the TCJA and permit PPL Electric to prospectively account for the income tax expense associated with the depreciation of the equity component of the AFUDC. On April 29, 2019, the FERC accepted the proposed revisions to the formula rate template, which were effective June 1, 2019, as well as the proposed adjustments to ADIT, effective January 1, 2018.

#### *Pennsylvania Alternative Ratemaking (PPL and PPL Electric)*

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

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

### *RIO-ED2 Review (PPL)*

In 2018, Ofgem published its decision on the overall RIO-2 framework, which covers all U.K. gas and electricity transmission and distribution price controls, following its consultation process earlier in the year. See “Item 7. Combined Management’s Discussion and Analysis of Financial Condition and Results of Operations - Overview - Financial and Operational Developments - Regulatory Requirements - RIO-2 Framework Review,” in PPL’s 2018 Form 10-K for details about the decision document. Management expects significant electricity distribution network investment will be required in RIO-ED2 to achieve the U.K.’s carbon reduction targets and that Ofgem will need to design a framework that sufficiently incentivizes delivery of those objectives.

On August 6, 2019, Ofgem published its open letter consultation officially commencing the RIO-ED2 process. WPD and PPL have been fully engaged in the RIO-2 process and will be responding to this consultation. At this stage, PPL cannot predict the outcome of this process or the long-term impact the final RIO-ED2 framework will have on its financial condition or results of operations. Any decision for RIO-ED2 will not be finalized until November 2022. The RIO-ED2 price control will come into effect on April 1, 2023.

### *FERC Transmission Rate Filing*

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

In August 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 sought 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 granted to such customers for either LG&E and KU or MISO transmission charges incurred depending upon the direction of certain transmission service incurred by the municipalities. 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. On March 21, 2019, the FERC issued an Order granting LG&E’s and KU’s request to remove the on-going credits, conditioned upon the implementation by LG&E and KU of a transition mechanism for certain existing power supply arrangements, which transition mechanism will be subject to FERC review and approval. On July 12, 2019, LG&E and KU submitted their proposed transition mechanism to the FERC for review and approval. LG&E and KU currently receive recovery of waivers and credits provided through other rate mechanisms.

*(PPL and PPL Electric)*

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

### *Rate Case Proceedings*

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

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. LG&E’s and KU’s applications also sought to include changes associated with the TCJA and state tax reform in the calculation of the proposed base rates and to terminate the TCJA bill credit mechanism when new base rates go into effect. The elimination of the TCJA bill credit mechanism will result in an estimated annual electricity revenue increase of approximately \$58 million at KU and increases in electricity and gas revenues of approximately \$40 million and \$12 million at LG&E. The applications were based on a forecasted test year of May 1, 2019 through April 30, 2020 with a requested return-on-equity of 10.42%.

On March 1, 2019, LG&E and KU, along with substantially all intervening parties to the proceeding, filed stipulation and



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recommendation agreements (stipulations) with the KPSC resolving all material issues with the parties. In addition to terminating the TCJA bill credit mechanism, the proposed stipulations provided for increases in annual revenue requirements associated with base electricity rates of approximately \$58 million at KU and increases in annual base electricity and gas rates of approximately \$4 million and \$20 million at LG&E, based on a return-on-equity of 9.725%.

On April 30, 2019, the KPSC issued orders ruling on open issues and approving the proposed stipulations filed in March 2019. The orders provide for increases in annual revenue requirements associated with base electricity rates of \$56 million at KU and increases associated with base electricity and gas rates of \$2 million and \$19 million at LG&E. With the termination of the TCJA bill credit mechanism, this represents annual revenue increases of \$187 million (\$114 million at KU and \$73 million at LG&E). The new base rates and all elements of the orders became effective on May 1, 2019.

*(KU)*

On July 12, 2019, KU filed a request with the VSCC for an increase annual Virginia base electricity rates of approximately \$13 million, representing an increase of 18.2%. KU's request is based on an authorized 10.5% return on equity. Subject to regulatory review and approval, new rates would become effective April 12, 2020.

**Results of Operations**

(PPL)

The "Statement of Income Analysis" discussion below describes significant changes in principal line items on PPL's Statements of Income, comparing the three and six months ended June 30, 2019 with the same periods in 2018. The "Segment Earnings" and "Adjusted Gross Margins" discussions for PPL provide a review of results by reportable segment. These discussions include non-GAAP financial measures, including "Earnings from Ongoing Operations" and "Adjusted Gross Margins," and provide explanations of the non-GAAP financial measures and a reconciliation of those measures to the most comparable GAAP measure.

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, 2019 with the same periods in 2018. 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		
	2019	2018	\$ Change	2019	2018	\$ Change
Operating Revenues	\$ 1,803	\$ 1,848	\$ (45)	\$ 3,882	\$ 3,974	\$ (92)
Operating Expenses						
Operation						
Fuel	168	189	(21)	362	403	(41)
Energy purchases	138	148	(10)	388	389	(1)
Other operation and maintenance	482	506	(24)	972	974	(2)
Depreciation	300	273	27	584	542	42
Taxes, other than income	75	74	1	155	157	(2)
Total Operating Expenses	1,163	1,190	(27)	2,461	2,465	(4)
Other Income (Expense) - net	131	234	(103)	183	191	(8)
Interest Expense	246	235	11	487	474	13
Income Taxes	84	142	(58)	210	259	(49)
Net Income	\$ 441	\$ 515	\$ (74)	\$ 907	\$ 967	\$ (60)

## Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Domestic:		
PPL Electric Distribution price (a)	\$ (7)	\$ 2
PPL Electric Distribution volume	(6)	(4)
PPL Electric PLR (b)	(5)	5
PPL Electric Transmission Formula Rate (c)	5	12
PPL Electric TCJA refund (d)	17	(7)
LKE Retail Rates (e)	35	35
LKE ECR	15	19
LKE Fuel and other energy prices	1	(9)
LKE Volumes (f)	(52)	(82)
LKE Demand revenue (g)	(9)	(8)
Other	4	20
Total Domestic	(2)	(17)
U.K.:		
Price	26	51
Volume	(29)	(43)
Foreign currency exchange rates	(34)	(74)
Other	(6)	(9)
Total U.K.	(43)	(75)
<b>Total</b>	<b>\$ (45)</b>	<b>\$ (92)</b>

- (a) Distribution price variances were primarily due to reconcilable cost recovery mechanisms approved by the PUC.
- (b) The decrease for the three months ended June 30, 2019 was primarily due to lower transmission enhancement expenses. The increase for the six months ended June 30, 2019 was primarily due to higher energy volumes partially offset by lower transmission enhancement expenses.
- (c) The Transmission Formula Rate revenues include \$11 million and \$27 million for the three and six months ended June 30, 2019, related to the unfavorable impact 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 reduced U.S. federal corporate income taxes as a result of the TCJA. The TCJA customer refund for the period January through June 2018 was recorded as a regulatory liability during the second quarter of 2018 and the negative surcharge rate for distribution customers went into effect July 1, 2018, based on the PUC Order.
- (e) The higher retail rates were due to higher base rates, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019.
- (f) The decreases were primarily due to weather.
- (g) The decreases were primarily due to the departure of eight municipal customers effective April 30, 2019.

## Fuel

Fuel decreased \$21 million for the three months ended June 30, 2019 compared with 2018, primarily due to a \$14 million decrease in volumes driven by weather and a \$6 million decrease in volumes driven by the departure of eight municipal customers on April 30, 2019 in Kentucky.

Fuel decreased \$41 million for the six months ended June 30, 2019 compared with 2018, primarily due to a \$25 million decrease in volumes driven by weather, a \$6 million decrease in volumes driven by the departure of eight municipal customers on April 30, 2019 and an \$11 million decrease in commodity costs in Kentucky.

## Energy Purchases

Energy purchases decreased \$10 million for the three months ended June 30, 2019 compared with 2018, primarily due to a \$6 million decrease in transmission enhancement expenses at PPL Electric and a \$4 million decrease in volumes driven by weather at LG&E.

Energy purchases decreased \$1 million for the six months ended June 30, 2019 compared with 2018, primarily due to a \$12 million decrease in transmission enhancement expenses at PPL Electric and a \$5 million decrease in volumes driven by weather at LG&E, partially offset by a \$16 million increase in PLR volumes at PPL Electric.

### Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Domestic:		
PPL Electric storm costs	\$ (10)	\$ (1)
PPL Electric contractor-related expenses	4	6
LKE gas distribution maintenance and compliance	2	4
LKE transmission credits	3	7
LKE DSM program costs	(4)	(7)
Other	(18)	4
U.K.:		
Foreign currency exchange rates	(7)	(14)
Third-party engineering	(3)	(5)
Other	9	4
<b>Total</b>	<b>\$ (24)</b>	<b>\$ (2)</b>

### Depreciation

The increase (decrease) in depreciation for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Additions to PP&E, net	\$ 18	\$ 36
Foreign currency exchange rates	(4)	(8)
Depreciation rates (a)	13	13
Other	—	1
<b>Total</b>	<b>\$ 27</b>	<b>\$ 42</b>

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

### Other Income (Expense) - net

The increase (decrease) in other income (expense) - net for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Economic foreign currency exchange contracts (Note 15)	\$ (119)	\$ (40)
Defined benefit plans - non-service credits (Note 10)	14	26
Other	2	6
<b>Total</b>	<b>\$ (103)</b>	<b>\$ (8)</b>

### Interest Expense

The increase (decrease) in interest expense for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Long-term debt interest expense	\$ 10	\$ 14
Short-term debt interest expense	3	4
Foreign currency exchange rates	(6)	(12)
Other	4	7
<b>Total</b>	<b>\$ 11</b>	<b>\$ 13</b>

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**Income Taxes**

The increase (decrease) in income taxes for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Change in pre-tax income	\$ (29)	\$ (27)
Deferred tax impact of Kentucky state tax reform (a)	(9)	(9)
Kentucky recycling credit, net of federal income tax expense (b)	(20)	(20)
Other	—	7
<b>Total</b>	<b>\$ (58)</b>	<b>\$ (49)</b>

- (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.
- (b) During the second quarter of 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky, with the benefit recognized during the period in which the assets are placed into service. A valuation allowance of \$3 million has been recognized related to this credit due to insufficient Kentucky taxable income projected at LKE.

**Segment Earnings**

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

	Three Months			Six Months		
	2019	2018	\$ Change	2019	2018	\$ Change
U.K. Regulated	\$ 284	\$ 394	\$ (110)	\$ 548	\$ 591	\$ (43)
Kentucky Regulated	97	77	20	214	210	4
Pennsylvania Regulated	94	75	19	215	223	(8)
Corporate and Other (a)	(34)	(31)	(3)	(70)	(57)	(13)
<b>Net Income</b>	<b>\$ 441</b>	<b>\$ 515</b>	<b>\$ (74)</b>	<b>\$ 907</b>	<b>\$ 967</b>	<b>\$ (60)</b>

- (a) Primarily represents financing and certain other costs incurred at the corporate level that have not been allocated or assigned to the segments, which are presented to reconcile segment information to PPL's consolidated results. The decrease for the six months ended June 30, 2019, compared with 2018, was primarily due to higher operation and maintenance expense.

**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 may include items such as:

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

Unrealized gains or losses on foreign currency economic hedges include the changes in fair value of foreign currency contracts used to hedge GBP-denominated anticipated earnings. The changes in fair value of these contracts are recognized immediately within GAAP earnings. Management believes that excluding these amounts from Earnings from Ongoing Operations until settlement of the contracts provides a better matching of the financial impacts of those contracts with the economic value of

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PPL's underlying hedged earnings. See Note 15 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		
	2019	2018	\$ Change	2019	2018	\$ Change
U.K. Regulated	\$ 264	\$ 254	\$ 10	\$ 568	\$ 516	\$ 52
Kentucky Regulated	97	86	11	214	219	(5)
Pennsylvania Regulated	94	75	19	215	223	(8)
Corporate and Other	(33)	(31)	(2)	(67)	(57)	(10)
<b>Earnings from Ongoing Operations</b>	<b>\$ 422</b>	<b>\$ 384</b>	<b>\$ 38</b>	<b>\$ 930</b>	<b>\$ 901</b>	<b>\$ 29</b>

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

**U.K. Regulated Segment**

The U.K. Regulated segment consists of PPL Global, which primarily includes WPD's regulated electricity distribution operations, the results of hedging the translation of WPD's earnings from GBP into U.S. dollars, and certain costs, such as U.S. income taxes, administrative costs and certain acquisition-related financing costs. The U.K. Regulated segment represents 60% of PPL's Net Income for the six months ended June 30, 2019 and 39% of PPL's assets at June 30, 2019.

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

	Three Months			Six Months		
	2019	2018	\$ Change	2019	2018	\$ Change
Operating revenues	\$ 541	\$ 584	\$ (43)	\$ 1,124	\$ 1,199	\$ (75)
Other operation and maintenance	133	137	(4)	251	269	(18)
Depreciation	64	63	1	126	125	1
Taxes, other than income	32	34	(2)	64	68	(4)
<b>Total operating expenses</b>	<b>229</b>	<b>234</b>	<b>(5)</b>	<b>441</b>	<b>462</b>	<b>(21)</b>
Other Income (Expense) - net	124	229	(105)	169	182	(13)
Interest Expense	96	97	(1)	195	204	(9)
Income Taxes	56	88	(32)	109	124	(15)
<b>Net Income</b>	<b>284</b>	<b>394</b>	<b>(110)</b>	<b>548</b>	<b>591</b>	<b>(43)</b>
Less: Special Items	20	140	(120)	(20)	75	(95)
<b>Earnings from Ongoing Operations</b>	<b>\$ 264</b>	<b>\$ 254</b>	<b>\$ 10</b>	<b>\$ 568</b>	<b>\$ 516</b>	<b>\$ 52</b>

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

Income Statement Line Item	Three Months		Six Months	
	2019	2018	2019	2018
Foreign currency economic hedges, net of tax of (\$7), (\$37), \$4, (\$20) (a)	\$ 24	\$ 140	\$ (16)	\$ 75
Other, net of tax of \$1, \$0, \$1, \$0 (b)	(4)	—	(4)	—
<b>Total Special Items</b>	<b>\$ 20</b>	<b>\$ 140</b>	<b>\$ (20)</b>	<b>\$ 75</b>

- (a) Represents unrealized gains (losses) on contracts that economically hedge anticipated GBP-denominated earnings.  
(b) Settlement of a contractual dispute.

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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	Three Months	Six Months
U.K.		
U.K. Adjusted Gross Margins	\$ (7)	\$ 4
Other operation and maintenance	(3)	2
Depreciation	(4)	(9)
Other Income (Expense) - net	19	39
Interest expense	(4)	(3)
Income taxes	2	(3)
U.S.		
Income taxes	—	1
Other	1	(2)
Foreign currency exchange, after-tax	6	23
<b>Earnings from Ongoing Operations</b>	<b>10</b>	<b>52</b>
Special items, after-tax	(120)	(95)
<b>Net Income</b>	<b>\$ (110)</b>	<b>\$ (43)</b>

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.

**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 six months ended June 30, 2019 and 35% of PPL's assets at June 30, 2019.

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

	Three Months			Six Months		
	2019	2018	\$ Change	2019	2018	\$ Change
Operating revenues	\$ 732	\$ 743	\$ (11)	\$ 1,577	\$ 1,615	\$ (38)
Fuel	168	189	(21)	362	403	(41)
Energy purchases	27	33	(6)	106	113	(7)
Other operation and maintenance	208	211	(3)	422	416	6
Depreciation	135	118	17	258	235	23
Taxes, other than income	18	18	—	36	35	1
<b>Total operating expenses</b>	<b>556</b>	<b>569</b>	<b>(13)</b>	<b>1,184</b>	<b>1,202</b>	<b>(18)</b>
Other Income (Expense) - net	—	1	(1)	—	(2)	2
Interest Expense	78	69	9	148	136	12
Income Taxes	1	29	(28)	31	65	(34)
<b>Net Income</b>	<b>97</b>	<b>77</b>	<b>20</b>	<b>214</b>	<b>210</b>	<b>4</b>
Less: Special Items	—	(9)	9	—	(9)	9
<b>Earnings from Ongoing Operations</b>	<b>\$ 97</b>	<b>\$ 86</b>	<b>\$ 11</b>	<b>\$ 214</b>	<b>\$ 219</b>	<b>\$ (5)</b>

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	
		2019	2018	2019	2018
Kentucky state tax reform (a)	Income Taxes	\$ —	\$ (9)	\$ —	\$ (9)
<b>Total Special Items</b>		<b>\$ —</b>	<b>\$ (9)</b>	<b>\$ —</b>	<b>\$ (9)</b>

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- (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.

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	Six Months
Kentucky Adjusted Gross Margins	\$ 3	\$ (2)
Other operation and maintenance	3	(9)
Depreciation	(5)	(9)
Taxes, other than income	1	—
Other Income (Expense) - net	(1)	2
Interest Expense	(9)	(12)
Income Taxes	19	25
Earnings from Ongoing Operations	11	(5)
Special items, after-tax	9	9
Net Income	\$ 20	\$ 4

- 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 six month period primarily due to a \$4 million increase in gas distribution maintenance and compliance and increases in various costs that were not individually significant.
- Higher depreciation expense for the three month period primarily due to higher depreciation rates effective May 1, 2019.
- Higher depreciation expense for the six month period primarily due to a \$5 million increase related to additional assets placed into service, net of retirements and a \$4 million increase related to higher depreciation rates effective May 1, 2019.
- Higher interest expense for the three and six month periods due to increased borrowings and higher interest rates.
- Lower income taxes for the three month period primarily due to the recording of a deferred tax benefit related to a Kentucky recycling credit of \$17 million.
- Lower income taxes for the six month period primarily due to the recording of a deferred tax benefit related to a Kentucky recycling credit of \$17 million and lower income taxes of \$8 million due to lower pre-tax income.

### 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 six months ended June 30, 2019 and 26% of PPL's assets at June 30, 2019.

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		
	2019	2018	\$ Change	2019	2018	\$ Change
Operating revenues	\$ 521	\$ 517	\$ 4	\$ 1,166	\$ 1,156	\$ 10
Energy purchases	110	115	(5)	281	276	5
Other operation and maintenance	130	159	(29)	280	292	(12)
Depreciation	96	88	8	191	173	18
Taxes, other than income	24	22	2	55	54	1
Total operating expenses	360	384	(24)	807	795	12
Other Income (Expense) - net	6	8	(2)	13	14	(1)
Interest Expense	41	39	2	83	76	7
Income Taxes	32	27	5	74	76	(2)
Net Income	94	75	19	215	223	(8)
Less: Special Items (a)	—	—	—	—	—	—
Earnings from Ongoing Operations	\$ 94	\$ 75	\$ 19	\$ 215	\$ 223	\$ (8)

(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	\$ 17	\$ 6
Other operation and maintenance	17	5
Depreciation	(4)	(12)
Taxes, other than income	(2)	(1)
Other Income (Expense) - net	(2)	(1)
Interest Expense	(2)	(7)
Income Taxes	(5)	2
Net Income	\$ 19	\$ (8)

- 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 lower service company costs and lower bad debt expense.
- 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.
- Higher interest expense for the six month period primarily due to the June 2018 issuance of \$400 million of 4.15% First Mortgage Bonds.
- Higher income taxes for the three month period primarily due to higher pre-tax income.

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.

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	2019 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
<b>Net Income</b>	\$ 284	\$ 97	\$ 94	\$ (34)	\$ 441
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of (\$7)	24	—	—	—	24
Talen litigation costs, net of tax of \$1 (a)	—	—	—	(1)	(1)
Other, net of tax of \$1	(4)	—	—	—	(4)
<b>Total Special Items</b>	<b>20</b>	<b>—</b>	<b>—</b>	<b>(1)</b>	<b>19</b>
<b>Earnings from Ongoing Operations</b>	<b>\$ 264</b>	<b>\$ 97</b>	<b>\$ 94</b>	<b>\$ (33)</b>	<b>\$ 422</b>

	2018 Three Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
<b>Net Income</b>	\$ 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)
<b>Total Special Items</b>	<b>140</b>	<b>(9)</b>	<b>—</b>	<b>—</b>	<b>131</b>
<b>Earnings from Ongoing Operations</b>	<b>\$ 254</b>	<b>\$ 86</b>	<b>\$ 75</b>	<b>\$ (31)</b>	<b>\$ 384</b>

	2019 Six Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
<b>Net Income</b>	\$ 548	\$ 214	\$ 215	\$ (70)	\$ 907
Less: Special Items (expense) benefit:					
Foreign currency economic hedges, net of tax of \$4	(16)	—	—	—	(16)
Talen litigation costs, net of tax of \$1 (a)	—	—	—	(3)	(3)
Other, net of tax of \$1	(4)	—	—	—	(4)
<b>Total Special Items</b>	<b>(20)</b>	<b>—</b>	<b>—</b>	<b>(3)</b>	<b>(23)</b>
<b>Earnings from Ongoing Operations</b>	<b>\$ 568</b>	<b>\$ 214</b>	<b>\$ 215</b>	<b>\$ (67)</b>	<b>\$ 930</b>

	2018 Six Months				
	U.K. Regulated	KY Regulated	PA Regulated	Corporate and Other	Total
<b>Net Income</b>	\$ 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)
<b>Total Special Items</b>	<b>75</b>	<b>(9)</b>	<b>—</b>	<b>—</b>	<b>66</b>
<b>Earnings from Ongoing Operations</b>	<b>\$ 516</b>	<b>\$ 219</b>	<b>\$ 223</b>	<b>\$ (57)</b>	<b>\$ 901</b>

(a) PPL incurred legal expenses related to litigation with its former affiliate, Talen Montana, and related cases. See Note 11 to the Financial Statements for additional information.

**Adjusted Gross Margins**

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

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

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- "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		
	2019	2018	\$ Change	2019	2018	\$ Change
<b>U.K. Regulated</b>						
U.K. Adjusted Gross Margins	\$ 500	\$ 538	\$ (38)	\$ 1,046	\$ 1,111	\$ (65)
Impact of changes in foreign currency exchange rates			(31)			(69)
U.K. Adjusted Gross Margins excluding impact of foreign currency exchange rates			\$ (7)			\$ 4
<b>Kentucky Regulated</b>						
Kentucky Adjusted Gross Margins						
LG&E	\$ 220	\$ 216	\$ 4	\$ 458	\$ 457	\$ 1
KU	264	265	(1)	556	559	(3)
Total Kentucky Adjusted Gross Margins	\$ 484	\$ 481	\$ 3	\$ 1,014	\$ 1,016	\$ (2)
<b>Pennsylvania Regulated</b>						
Pennsylvania Adjusted Gross Margins						
Distribution	\$ 204	\$ 192	\$ 12	\$ 464	\$ 470	\$ (6)
Transmission	142	137	5	285	273	12
Total Pennsylvania Adjusted Gross Margins	\$ 346	\$ 329	\$ 17	\$ 749	\$ 743	\$ 6

**U.K. Adjusted Gross Margins**

U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, decreased for the three months ended June 30, 2019 compared with 2018, primarily due to \$29 million of lower volumes, partially offset by \$26 million from the April 1, 2019 price increase.

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U.K. Adjusted Gross Margins, excluding the impact of changes in foreign currency exchange rates, increased for the six months ended June 30, 2019 compared with 2018, primarily due to \$51 million from the April 1, 2018 and 2019 price increases, partially offset by \$43 million of lower volumes.

### *Kentucky Adjusted Gross Margins*

Kentucky Adjusted Gross Margins increased for the three months ended June 30, 2019 compared with 2018, primarily due to higher retail rates approved by the KPSC of \$35 million (\$14 million at LG&E and \$21 million at KU), inclusive of the termination of the TCJA bill credit mechanism. This was partially offset by \$26 million of decreased sales volumes primarily due to weather (\$12 million at LG&E and \$14 million at KU) and \$8 million of decreased demand revenues at KU primarily due to the departure of eight municipal customers on April 30, 2019.

Kentucky Adjusted Gross Margins decreased for the six months ended June 30, 2019 compared with 2018, primarily due to \$36 million of decreased sales volumes primarily due to weather (\$16 million at LG&E and \$20 million at KU) and \$7 million of decreased demand revenues at KU primarily due to the departure of eight municipal customers on April 30, 2019. This was partially offset by higher retail rates approved by the KPSC of \$35 million (\$14 million at LG&E and \$21 million at KU), inclusive of the termination of the TCJA bill credit mechanism.

### *Pennsylvania Adjusted Gross Margins*

#### Distribution

Distribution Adjusted Gross Margins increased for the three months ended June 30, 2019 compared with 2018, primarily due to \$17 million from the timing of recording the regulatory liability related to the TCJA in 2018 as a result of the PUC Rate Order in May 2018. The increase was partially offset by \$6 million of lower electricity sales volumes primarily due to weather.

Distribution Adjusted Gross Margins decreased for the six months ended June 30, 2019 compared with 2018, primarily due to a \$6 million increased customer refund related to the reduced U.S. federal corporate income taxes as a result of the TCJA.

#### Transmission

Transmission Adjusted Gross Margins increased for the three months ended June 30, 2019, compared with 2018, primarily due to an increase of \$17 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by \$11 million from the impact of the reduced U.S. federal corporate income taxes as a result of the TCJA, which affected transmission revenues in the second quarter of 2019.

Transmission Adjusted Gross Margins increased for the six months ended June 30, 2019, compared with 2018, primarily due to an increase of \$43 million from returns on additional transmission capital investments focused on replacing aging infrastructure and improving reliability, partially offset by \$27 million from the impact of the reduced U.S. federal corporate income taxes as a result of the TCJA in the first five months of 2019.

### Reconciliation of Adjusted Gross Margins

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

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	2019 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 531 (c)	\$ 732	\$ 521	\$ 19	\$ 1,803
<b>Operating Expenses</b>					
Fuel	—	168	—	—	168
Energy purchases	—	27	110	1	138
Other operation and maintenance	31	23	31	397	482
Depreciation	—	29	12	259	300
Taxes, other than income	—	1	22	52	75
Total Operating Expenses	31	248	175	709	1,163
<b>Total</b>	<b>\$ 500</b>	<b>\$ 484</b>	<b>\$ 346</b>	<b>\$ (690)</b>	<b>\$ 640</b>

	2018 Three Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 574 (c)	\$ 743	\$ 517	\$ 14	\$ 1,848
<b>Operating Expenses</b>					
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
<b>Total</b>	<b>\$ 538</b>	<b>\$ 481</b>	<b>\$ 329</b>	<b>\$ (690)</b>	<b>\$ 658</b>

	2019 Six Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 1,105 (c)	\$ 1,577	\$ 1,166	\$ 34	\$ 3,882
<b>Operating Expenses</b>					
Fuel	—	362	—	—	362
Energy purchases	—	106	281	1	388
Other operation and maintenance	59	45	62	806	972
Depreciation	—	48	22	514	584
Taxes, other than income	—	2	52	101	155
Total Operating Expenses	59	563	417	1,422	2,461
<b>Total</b>	<b>\$ 1,046</b>	<b>\$ 1,014</b>	<b>\$ 749</b>	<b>\$ (1,388)</b>	<b>\$ 1,421</b>

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	2018 Six Months				
	U.K. Adjusted Gross Margins	Kentucky Adjusted Gross Margins	Pennsylvania Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 1,179 (c)	\$ 1,615	\$ 1,156	\$ 24	\$ 3,974
<b>Operating Expenses</b>					
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
<b>Total</b>	<b>\$ 1,111</b>	<b>\$ 1,016</b>	<b>\$ 743</b>	<b>\$ (1,361)</b>	<b>\$ 1,509</b>

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

(c) Excludes ancillary revenues of \$10 million and \$19 million for the three and six months ended June 30, 2019 and \$10 million and \$20 million for the three and six months ended June 30, 2018.

## 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		
	2019	2018	\$ Change	2019	2018	\$ Change
<b>Operating Revenues</b>	\$ 521	\$ 517	\$ 4	\$ 1,166	\$ 1,156	\$ 10
<b>Operating Expenses</b>						
<b>Operation</b>						
Energy purchases	110	115	(5)	281	276	5
Other operation and maintenance	130	159	(29)	280	292	(12)
Depreciation	96	88	8	191	173	18
Taxes, other than income	24	22	2	55	54	1
<b>Total Operating Expenses</b>	<b>360</b>	<b>384</b>	<b>(24)</b>	<b>807</b>	<b>795</b>	<b>12</b>
Other Income (Expense) - net	6	7	(1)	11	13	(2)
Interest Income from Affiliate	—	1	(1)	2	1	1
Interest Expense	41	39	2	83	76	7
Income Taxes	32	27	5	74	76	(2)
<b>Net Income</b>	<b>\$ 94</b>	<b>\$ 75</b>	<b>\$ 19</b>	<b>\$ 215</b>	<b>\$ 223</b>	<b>\$ (8)</b>

### Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Distribution price (a)	\$ (7)	\$ 2
Distribution volume	(6)	(4)
PLR (b)	(5)	5
Transmission Formula Rate (c)	5	12
TCJA refund (d)	17	(7)
Other	—	2
<b>Total</b>	<b>\$ 4</b>	<b>\$ 10</b>

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

(b) The decrease for three months ended June 30, 2019 was primarily due to lower transmission enhancement expenses. The increase for six months ended June 30, 2019 was primarily due to higher energy volumes partially offset by lower transmission enhancement expenses.

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- (c) The Transmission Formula Rate revenues include \$11 million and \$27 million for the three and six months ended June 30, 2019 related to the unfavorable impact 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 reduced U.S. federal corporate income taxes as a result of the TCJA. The TCJA customer refund for the period January through June 2018 was recorded as a regulatory liability during the second quarter of 2018 and the negative surcharge rate for distribution customers went into effect July 1, 2018, based on the PUC Order.

**Energy Purchases**

Energy purchases decreased \$5 million for the three months ended June 30, 2019 compared with 2018, primarily due to lower transmission enhancement expenses of \$6 million.

Energy purchases increased \$5 million for the six months ended June 30, 2019 compared with 2018, primarily due to higher PLR volumes of \$16 million, partially offset by lower transmission enhancement expenses of \$12 million.

**Other Operation and Maintenance**

The decrease in other operation and maintenance for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Storm costs	\$ (10)	\$ (1)
Service company costs	(6)	(4)
Bad debts	(3)	(3)
Inventory reserve	(3)	—
Act 129	(2)	(1)
Act 129 Smart Meter Program	(1)	(3)
Contractor-related expenses	4	6
Other	(8)	(6)
<b>Total</b>	<b>\$ (29)</b>	<b>\$ (12)</b>

**Depreciation**

Depreciation increased \$8 million and \$18 million for the three and six months ended June 30, 2019 compared with 2018, primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program, net of retirements.

**Interest Expense**

Interest expense increased \$2 million and \$7 million for the three and six months ended June 30, 2019 compared with 2018, primarily due to 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, 2019 compared with 2018 was due to:

	Three Months	Six Months
Change in pre-tax income	\$ 6	\$ (3)
Other	(1)	1
<b>Total</b>	<b>\$ 5</b>	<b>\$ (2)</b>

**Earnings**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net Income	\$ 94	\$ 75	\$ 215	\$ 223
Special Item, gain (loss), after-tax (a)	—	—	—	—

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

Earnings increased for the three month period in 2019 compared with 2018, driven primarily by timing impacts related to U.S. tax reform, returns on additional capital investments in transmission and lower other operation and maintenance expense, partially offset by lower sales volumes and higher depreciation expense.

Earnings decreased for the six month period in 2019 compared with 2018, driven primarily by year-over-year differences in the impact of reduced income taxes in rates due to U.S. tax reform, higher depreciation expense and higher interest expense, partially offset by returns on additional capital investments in transmission.

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	\$ 17	\$ 6
Other operation and maintenance	17	5
Depreciation	(4)	(12)
Taxes, other than income	(2)	(1)
Other Income (Expense) - net	(2)	(1)
Interest Expense	(2)	(7)
Income Taxes	(5)	2
Net Income	\$ 19	\$ (8)

**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.

	2019 Three Months			2018 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 521	\$ —	\$ 521	\$ 517	\$ —	\$ 517
<b>Operating Expenses</b>						
Energy purchases	110	—	110	115	—	115
Other operation and maintenance	31	99	130	43	116	159
Depreciation	12	84	96	8	80	88
Taxes, other than income	22	2	24	22	—	22
Total Operating Expenses	175	185	360	188	196	384
Total	\$ 346	\$ (185)	\$ 161	\$ 329	\$ (196)	\$ 133



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	2019 Six Months			2018 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 1,166	\$ —	\$ 1,166	\$ 1,156	\$ —	\$ 1,156
<b>Operating Expenses</b>						
Energy purchases	281	—	281	276	—	276
Other operation and maintenance	62	218	280	69	223	292
Depreciation	22	169	191	16	157	173
Taxes, other than income	52	3	55	52	2	54
Total Operating Expenses	417	390	807	413	382	795
<b>Total</b>	<b>\$ 749</b>	<b>\$ (390)</b>	<b>\$ 359</b>	<b>\$ 743</b>	<b>\$ (382)</b>	<b>\$ 361</b>

(a) Represents amounts excluded from Adjusted Gross Margins.

(b) As reported on the Statements of Income.

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

#### Statement of Income Analysis

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

	Three Months			Six Months		
	2019	2018	\$ Change	2019	2018	\$ Change
<b>Operating Revenues</b>	\$ 732	\$ 743	\$ (11)	\$ 1,577	\$ 1,615	\$ (38)
<b>Operating Expenses</b>						
Operation						
Fuel	168	189	(21)	362	403	(41)
Energy purchases	27	33	(6)	106	113	(7)
Other operation and maintenance	208	211	(3)	422	416	6
Depreciation	135	118	17	258	235	23
Taxes, other than income	18	18	—	36	35	1
Total Operating Expenses	556	569	(13)	1,184	1,202	(18)
Other Income (Expense) - net	—	1	(1)	—	(2)	2
Interest Expense	58	52	6	112	102	10
Interest Expense with Affiliate	9	6	3	16	11	5
Income Taxes	3	31	(28)	35	70	(35)
<b>Net Income</b>	<b>\$ 106</b>	<b>\$ 86</b>	<b>\$ 20</b>	<b>\$ 230</b>	<b>\$ 228</b>	<b>\$ 2</b>

#### Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Higher retail rates (a)	\$ 35	\$ 35
ECR	15	19
Fuel and other energy prices	1	(9)
Volumes (b)	(52)	(82)
Demand revenue (c)	(9)	(8)
Other	(1)	7
<b>Total</b>	<b>\$ (11)</b>	<b>\$ (38)</b>

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

(b) The decreases were primarily due to weather.

(c) The decreases were primarily due to the departure of eight municipal customers effective April 30, 2019.

## Fuel

Fuel decreased \$21 million for the three months ended June 30, 2019 compared with 2018, primarily due to a \$14 million decrease in volumes driven by weather and a \$6 million decrease in volumes driven by the departure of eight municipal customers on April 30, 2019.

Fuel decreased \$41 million for the six months ended June 30, 2019 compared with 2018, primarily due to a \$25 million decrease in volume driven by weather, a \$6 million decrease in volumes driven by the departure of eight municipal customers on April 30, 2019 and an \$11 million decrease in commodity costs.

## Energy Purchases

Energy purchases decreased \$6 million for the three months ended June 30, 2019 compared with 2018, primarily due to a decrease in volumes driven by weather.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Gas distribution maintenance and compliance	\$ 2	\$ 4
Transmission credits	3	7
Vegetation management	(1)	1
Administrative and general	(2)	—
Plant operations and maintenance	(2)	(2)
DSM program costs	(4)	(7)
Other	1	3
Total	<u>\$ (3)</u>	<u>\$ 6</u>

## Depreciation

Depreciation increased \$17 million for the three months ended June 30, 2019 compared with 2018, primarily due to a \$13 million increase related to higher depreciation rates effective May 1, 2019, and a \$3 million increase related to additional assets placed into service, net of retirements.

Depreciation increased \$23 million for the six months ended June 30, 2019 compared with 2018, primarily due to a \$13 million increase related to higher depreciation rates effective May 1, 2019 and an \$8 million increase related to additional assets placed into service, net of retirements.

## Interest Expense

Interest expense increased \$6 million for the three months ended June 30, 2019 compared with 2018, primarily due to increased borrowings and higher interest rates.

## Income Taxes

The increase (decrease) in income taxes for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Change in pre-tax income	\$ (2)	\$ (8)
Deferred tax impact of Kentucky state tax reform (a)	(9)	(9)
Kentucky recycling credit, net of federal income tax expense (b)	(20)	(20)
Valuation allowance adjustments (b)	3	3
Other	—	(1)
Total	<u>\$ (28)</u>	<u>\$ (35)</u>

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- (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.
- (b) During the second quarter of 2019, LKE recorded a deferred income tax benefit associated with two projects placed into service that prepare a generation waste material for reuse and, as a result, qualify for a Kentucky recycling credit. The applicable credit provides tax benefits for a portion of the equipment costs for major recycling projects in Kentucky, with the benefit recognized during the period in which the assets are placed into service. A portion of this amount has been reserved due to insufficient Kentucky taxable income projected at LKE.

## **Earnings**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net Income	\$ 106	\$ 86	\$ 230	\$ 228
Special items, gains (losses), after-tax	—	(9)	—	(9)

Excluding special items, earnings increased for the three month period in 2019 compared with 2018, primarily due to higher retail rates approved by the KPSC, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019 and lower income taxes, partially offset by lower sales volumes driven primarily by weather, higher depreciation expense and higher interest expense.

Excluding special items, earnings decreased for the six month period in 2019 compared with 2018, primarily due to lower sales volumes driven primarily by weather, higher other operation and maintenance expense, higher depreciation expense and higher interest expense, partially offset by higher retail rates approved by the KPSC, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019 and lower income taxes.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as 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	Six Months
Adjusted Gross Margins	\$ 3	\$ (2)
Other operation and maintenance	3	(9)
Depreciation	(5)	(9)
Taxes, other than income	1	—
Other Income (Expense) - net	(1)	2
Interest Expense	(9)	(15)
Income Taxes	19	26
Special items, gains (losses), after-tax (a)	9	9
Net Income	\$ 20	\$ 2

- (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 June 30.

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	2019 Three Months			2018 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 732	\$ —	\$ 732	\$ 743	\$ —	\$ 743
<b>Operating Expenses</b>						
Fuel	168	—	168	189	—	189
Energy purchases	27	—	27	33	—	33
Other operation and maintenance	23	185	208	23	188	211
Depreciation	29	106	135	17	101	118
Taxes, other than income	1	17	18	—	18	18
Total Operating Expenses	248	308	556	262	307	569
Total	\$ 484	\$ (308)	\$ 176	\$ 481	\$ (307)	\$ 174

	2019 Six Months			2018 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 1,577	\$ —	\$ 1,577	\$ 1,615	\$ —	\$ 1,615
<b>Operating Expenses</b>						
Fuel	362	—	362	403	—	403
Energy purchases	106	—	106	113	—	113
Other operation and maintenance	45	377	422	48	368	416
Depreciation	48	210	258	34	201	235
Taxes, other than income	2	34	36	1	34	35
Total Operating Expenses	563	621	1,184	599	603	1,202
Total	\$ 1,014	\$ (621)	\$ 393	\$ 1,016	\$ (603)	\$ 413

- (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		
	2019	2018	\$ Change	2019	2018	\$ Change
<b>Operating Revenues</b>						
Retail and wholesale	\$ 328	\$ 331	\$ (3)	\$ 725	\$ 738	\$ (13)
Electric revenue from affiliate	6	4	2	19	16	3
Total Operating Revenues	334	335	(1)	744	754	(10)
<b>Operating Expenses</b>						
Operation						
Fuel	69	72	(3)	147	151	(4)
Energy purchases	22	28	(6)	96	104	(8)
Energy purchases from affiliate	2	2	—	4	8	(4)
Other operation and maintenance	96	93	3	190	182	8
Depreciation	56	49	7	107	97	10
Taxes, other than income	10	9	1	19	18	1
Total Operating Expenses	255	253	2	563	560	3
Other Income (Expense) - net	(1)	(1)	—	(1)	(2)	1
Interest Expense	22	19	3	43	37	6
Income Taxes	12	12	—	29	33	(4)
Net Income	\$ 44	\$ 50	\$ (6)	\$ 108	\$ 122	\$ (14)

## Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Higher retail rates (a)	\$ 14	\$ 14
ECR	7	9
Fuel and other energy prices	2	1
Volumes (b)	(21)	(36)
Demand revenue	(1)	(1)
Other	(2)	3
<b>Total</b>	<b>\$ (1)</b>	<b>\$ (10)</b>

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

(b) The decreases were primarily due to weather.

## Fuel

Fuel decreased \$3 million for the three months ended June 30, 2019 compared with 2018, primarily due to a decrease in volumes driven by weather.

## Energy Purchases

Energy purchases decreased \$6 million and \$8 million for the three and six months ended June 30, 2019 compared with 2018, primarily due to a decrease in volumes driven by weather.

## Other Operation and Maintenance

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Gas distribution maintenance and compliance	\$ 2	\$ 4
Transmission credits	1	2
Vegetation management	1	2
Plant operations and maintenance	1	2
DSM program costs	(2)	(4)
Other	—	2
<b>Total</b>	<b>\$ 3</b>	<b>\$ 8</b>

## Depreciation

Depreciation increased \$7 million for the three months ended June 30, 2019 compared with 2018, primarily due to higher depreciation rates effective May 1, 2019.

Depreciation increased \$10 million for the six months ended June 30, 2019 compared with 2018, primarily due to a \$6 million increase related to higher depreciation rates effective May 1, 2019 and a \$4 million increase related to additional assets placed into service, net of retirements.

## Interest Expense

Interest expense increased \$3 million and \$6 million for the three and six months ended June 30, 2019 compared with 2018, primarily due to increased borrowings and higher interest rates.

**Earnings**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net Income	\$ 44	\$ 50	\$ 108	\$ 122
Special items, gains (losses), after-tax (a)	—	—	—	—

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

Earnings decreased for the three and six month periods in 2019 compared with 2018, primarily due to lower sales volumes driven by weather, higher other operation and maintenance expense, higher depreciation expense and higher interest expense, partially offset by higher retail rates approved by the KPSC, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019.

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	\$ 4	\$ 1
Other operation and maintenance	(5)	(10)
Depreciation	(1)	(4)
Taxes, other than income	(1)	—
Other Income (Expense) - net	—	1
Interest Expense	(3)	(6)
Income Taxes	—	4
Net Income	\$ (6)	\$ (14)

**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.

	2019 Three Months			2018 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
Operating Revenues	\$ 334	\$ —	\$ 334	\$ 335	\$ —	\$ 335
<b>Operating Expenses</b>						
Fuel	69	—	69	72	—	72
Energy purchases, including affiliate	24	—	24	30	—	30
Other operation and maintenance	8	88	96	10	83	93
Depreciation	13	43	56	7	42	49
Taxes, other than income	—	10	10	—	9	9
Total Operating Expenses	114	141	255	119	134	253
Total	\$ 220	\$ (141)	\$ 79	\$ 216	\$ (134)	\$ 82

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	2019 Six Months			2018 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 744	\$ —	\$ 744	\$ 754	\$ —	\$ 754
<b>Operating Expenses</b>						
Fuel	147	—	147	151	—	151
Energy purchases, including affiliate	100	—	100	112	—	112
Other operation and maintenance	17	173	190	19	163	182
Depreciation	21	86	107	15	82	97
Taxes, other than income	1	18	19	—	18	18
Total Operating Expenses	286	277	563	297	263	560
<b>Total</b>	<b>\$ 458</b>	<b>\$ (277)</b>	<b>\$ 181</b>	<b>\$ 457</b>	<b>\$ (263)</b>	<b>\$ 194</b>

(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		
	2019	2018	\$ Change	2019	2018	\$ Change
<b>Operating Revenues</b>						
Retail and wholesale	\$ 404	\$ 412	\$ (8)	\$ 852	\$ 877	\$ (25)
Electric revenue from affiliate	2	2	—	4	8	(4)
Total Operating Revenues	406	414	(8)	856	885	(29)
<b>Operating Expenses</b>						
<b>Operation</b>						
Fuel	99	117	(18)	215	252	(37)
Energy purchases	5	5	—	10	9	1
Energy purchases from affiliate	6	4	2	19	16	3
Other operation and maintenance	105	112	(7)	213	217	(4)
Depreciation	78	70	8	150	138	12
Taxes, other than income	8	9	(1)	17	17	—
Total Operating Expenses	301	317	(16)	624	649	(25)
Other Income (Expense) - net	(2)	3	(5)	—	—	—
Interest Expense	28	25	3	54	50	4
Income Taxes	14	14	—	36	38	(2)
<b>Net Income</b>	<b>\$ 61</b>	<b>\$ 61</b>	<b>\$ —</b>	<b>\$ 142</b>	<b>\$ 148</b>	<b>\$ (6)</b>

#### Operating Revenues

The increase (decrease) in operating revenues for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Higher retail rates (a)	\$ 21	\$ 21
ECR	8	10
Volumes (b)	(29)	(45)
Demand revenue (c)	(8)	(7)
Fuel and other energy prices	(2)	(12)
Other	2	4
<b>Total</b>	<b>\$ (8)</b>	<b>\$ (29)</b>

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- (a) The higher retail rates were due to higher base rates, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019.
- (b) The decreases were primarily due to weather.
- (c) The decreases were primarily due to the departure of eight municipal customers effective April 30, 2019.

**Fuel**

Fuel decreased \$18 million for the three months ended June 30, 2019 compared with 2018, primarily due to an \$11 million decrease in volumes driven by weather and a \$6 million decrease in volumes driven by the departure of eight municipal customers on April 30, 2019.

Fuel decreased \$37 million for the six months ended June 30, 2019 compared with 2018, primarily due to a \$23 million decrease in volumes driven by weather, a \$6 million decrease in volumes driven by the departure of eight municipal customers on April 30, 2019 and a \$9 million decrease in commodity costs.

**Other Operation and Maintenance**

The increase (decrease) in other operation and maintenance for the periods ended June 30, 2019 compared with 2018 was due to:

	Three Months	Six Months
Transmission credits	\$ 2	\$ 5
Plant operations and maintenance	(3)	(4)
Vegetation management	(2)	(1)
DSM program costs	(2)	(3)
Other	(2)	(1)
Total	<u>\$ (7)</u>	<u>\$ (4)</u>

**Depreciation**

Depreciation increased \$8 million for the three months ended June 30, 2019 compared with 2018, primarily due to higher depreciation rates effective May 1, 2019.

Depreciation increased \$12 million for the six months ended June 30, 2019 compared with 2018, primarily due to a \$7 million increase related to higher depreciation rates effective May 1, 2019 and a \$4 million increase related to additional assets placed into service, net of retirements.

**Interest Expense**

Interest expense increased \$3 million for the three months ended June 30, 2019 compared with 2018, primarily due to increased borrowings and higher interest rates.

**Earnings**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2019	2018	2019	2018
Net Income	\$ 61	\$ 61	\$ 142	\$ 148
Special items, gains (losses), after-tax (a)	—	—	—	—

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

Earnings decreased for the six month period in 2019 compared with 2018, primarily due to lower sales volumes driven primarily by weather, higher depreciation expense and higher interest expense, partially offset by higher retail rates approved by the KPSC, inclusive of the termination of the TCJA bill credit mechanism, effective May 1, 2019, and lower other operation and maintenance expense.

The table below quantifies the changes in the components of Net Income between these periods, which reflect amounts classified as 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	\$ (1)	\$ (3)
Other operation and maintenance	9	3
Depreciation	(2)	(4)
Taxes, other than income	2	—
Other Income (Expense) - net	(5)	—
Interest Expense	(3)	(4)
Income Taxes	—	2
Net Income	\$ —	\$ (6)

**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.

	2019 Three Months			2018 Three Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 406	\$ —	\$ 406	\$ 414	\$ —	\$ 414
<b>Operating Expenses</b>						
Fuel	99	—	99	117	—	117
Energy purchases, including affiliate	11	—	11	9	—	9
Other operation and maintenance	15	90	105	13	99	112
Depreciation	16	62	78	10	60	70
Taxes, other than income	1	7	8	—	9	9
Total Operating Expenses	142	159	301	149	168	317
<b>Total</b>	<b>\$ 264</b>	<b>\$ (159)</b>	<b>\$ 105</b>	<b>\$ 265</b>	<b>\$ (168)</b>	<b>\$ 97</b>

	2019 Six Months			2018 Six Months		
	Adjusted Gross Margins	Other (a)	Operating Income (b)	Adjusted Gross Margins	Other (a)	Operating Income (b)
<b>Operating Revenues</b>	\$ 856	\$ —	\$ 856	\$ 885	\$ —	\$ 885
<b>Operating Expenses</b>						
Fuel	215	—	215	252	—	252
Energy purchases, including affiliate	29	—	29	25	—	25
Other operation and maintenance	28	185	213	29	188	217
Depreciation	27	123	150	19	119	138
Taxes, other than income	1	16	17	1	16	17
Total Operating Expenses	300	324	624	326	323	649
<b>Total</b>	<b>\$ 556</b>	<b>\$ (324)</b>	<b>\$ 232</b>	<b>\$ 559</b>	<b>\$ (323)</b>	<b>\$ 236</b>

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

**Financial Condition**

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

**Liquidity and Capital Resources**

(All Registrants)

The Registrants had the following at:

	<u>PPL (a)</u>	<u>PPL Electric</u>	<u>LKE</u>	<u>LG&amp;E</u>	<u>KU</u>
<b>June 30, 2019</b>					
Cash and cash equivalents	\$ 406	\$ 20	\$ 32	\$ 9	\$ 23
Short-term debt	1,636	185	96	96	—
Long-term debt due within one year	136	—	136	40	96
Notes payable with affiliates		—	203	—	—
<b>December 31, 2018</b>					
Cash and cash equivalents	\$ 621	\$ 267	\$ 24	\$ 10	\$ 14
Short-term debt	1,430	—	514	279	235
Long-term debt due within one year	530	—	530	434	96
Notes payable with affiliates		—	113	—	—

(a) At June 30, 2019, \$21 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 in PPL's 2018 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&amp;E</u>	<u>KU</u>
<b>2019</b>					
Operating activities	\$ 1,070	\$ 314	\$ 445	\$ 258	\$ 270
Investing activities	(1,479)	(530)	(530)	(224)	(305)
Financing activities	198	(31)	93	(35)	44
<b>2018</b>					
Operating activities	\$ 1,325	\$ 364	\$ 440	\$ 255	\$ 274
Investing activities	(1,649)	(521)	(564)	(296)	(266)
Financing activities	695	597	133	45	(3)
<b>Change - Cash Provided (Used)</b>					
Operating activities	\$ (255)	\$ (50)	\$ 5	\$ 3	\$ (4)
Investing activities	170	(9)	34	72	(39)
Financing activities	(497)	(628)	(40)	(80)	47

**Operating Activities**

The components of the change in cash provided by (used in) operating activities for the six months ended June 30, 2019 compared with 2018 were as follows.

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	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Net income	\$ (60)	\$ (8)	\$ 2	\$ (14)	\$ (6)
Non-cash components	106	1	44	23	34
Working capital	(226)	(49)	(126)	(67)	(72)
Defined benefit plan funding	(1)	7	94	53	50
Other operating activities	(74)	(1)	(9)	8	(10)
Total	<u>\$ (255)</u>	<u>\$ (50)</u>	<u>\$ 5</u>	<u>\$ 3</u>	<u>\$ (4)</u>

*(PPL)*

PPL's cash provided by operating activities in 2019 decreased \$255 million compared with 2018.

- Net income decreased \$60 million between the periods and included an increase in non-cash charges of \$106 million. The increase in non-cash charges was primarily due to an increase in unrealized losses on hedging activities and an increase in depreciation expense (primarily due to additional assets placed into service, related to the ongoing efforts to ensure the reliability of the delivery system and the replacement of aging infrastructure, net of retirements) partially offset by an increase in the U.K. net periodic defined benefit credits (primarily due to lower levels of unrecognized losses being amortized) and a decrease in deferred income taxes (primarily due to book versus tax plant timing differences).
- The \$226 million decrease in cash from changes in working capital was primarily due to an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), a decrease in other current liabilities (primarily due to timing of payments), an increase in accounts receivable (primarily due to timing of receipts), an increase in unbilled revenues (primarily due to weather and higher rates), and an increase in prepayments (primarily due to timing of payments).
- The \$74 million decrease in cash provided by other operating activities was primarily due to the \$65 million transfer of excess benefits funds, in 2018, related to the favorable private letter ruling received by PPL from the IRS permitting a transfer of excess funds from the PPL Bargaining Unit Retiree Health Plan VEBA to a new subaccount within the VEBA, to be used to pay for medical claims of active bargaining unit employees.

*(PPL Electric)*

PPL Electric's cash provided by operating activities in 2019 decreased \$50 million compared with 2018.

- Net income decreased \$8 million between the periods and included an increase in non-cash components of \$1 million. The increase in non-cash components was due to an \$18 million increase in depreciation expense (primarily due to additional assets placed into service, related to the ongoing efforts to ensure reliability of the delivery system and the replacement of aging infrastructure as well as the roll-out of the Act 129 Smart Meter program) partially offset by a \$17 million decrease in deferred income taxes (due to book versus tax plant timing differences and Federal net operating losses, partially offset by a book to tax timing difference related to the TCJA regulatory liability).
- The \$49 million decrease in cash from changes in working capital was primarily due to an increase in accounts receivable (primarily due to timing of receipts), an increase in prepayments (primarily due to an increase in the 2019 gross receipts tax prepayment compared to 2018 and a 2018 state income tax overpayment to be applied to the 2019 state income tax liability), and an increase in net regulatory assets and liabilities (due to timing of rate recovery mechanisms), partially offset by an increase in accounts payable (primarily due to timing of payments).
- Defined benefit plan funding was \$7 million lower in 2019.
- The \$1 million decrease in cash provided by other operating activities was primarily due to a decrease in non-current regulatory liabilities (primarily due to a \$37 million TCJA liability in 2018), partially offset by a decrease in non-current regulatory assets (due to timing of rate recovery mechanisms, amortization of storm costs incurred in the prior year and \$21 million of storm costs incurred in 2018).

*(LKE)*

LKE's cash provided by operating activities in 2019 increased \$5 million compared with 2018.

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- Net income increased \$2 million between the periods and included an increase in non-cash charges of \$44 million. The increase in non-cash charges was primarily driven by an increase in depreciation expense (primarily due to higher depreciation rates and additional assets placed into service, net of retirements) and deferred income tax expense (primarily due to book versus tax plant timing differences, partially offset by a deferred tax benefit related to a Kentucky recycling credit).
- The decrease in cash from changes in working capital was primarily driven by an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and timing of rate recovery mechanisms), an increase in unbilled revenues (primarily due to weather and higher retail rates effective May 1, 2019) and a decrease in accounts payable (primarily due to timing of payments), partially offset by an increase in other current liabilities (primarily due to timing of payments).
- Defined benefit plan funding was \$94 million lower in 2019.
- 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 2019 increased \$3 million compared with 2018.

- Net income decreased \$14 million between the periods and included an increase in non-cash charges of \$23 million. The increase in non-cash charges was primarily driven by an increase in depreciation expense (primarily due to higher depreciation rates and additional assets placed into service, net of retirements) and deferred income tax expense (primarily due to book versus tax plant timing differences).
- The decrease in cash from changes in working capital was primarily driven by an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms) and an increase in unbilled revenues (primarily due to weather and higher retail rates effective May 1, 2019).
- Defined benefit plan funding was \$53 million lower in 2019.

### *(KU)*

KU's cash provided by operating activities in 2019 decreased \$4 million compared with 2018.

- Net income decreased \$6 million between the periods and included an increase in non-cash charges of \$34 million. The increase in non-cash charges was primarily driven by an increase in deferred income tax expense (primarily due to book versus tax plant timing differences) and depreciation expense (primarily due to higher depreciation rates and additional assets placed into service, net of retirements).
- The decrease in cash from changes in working capital was primarily driven by an increase in net regulatory assets and liabilities (primarily due to the impact of the TCJA and the timing of rate recovery mechanisms), an increase in unbilled revenues (primarily due to weather and higher retail rates effective May 1, 2019), and a decrease in accounts payable (primarily due to timing of payments), partially offset by an increase in other current liabilities (primarily due to timing of payments) and a decrease in accounts receivable (primarily due to weather).
- Defined benefit plan funding was \$50 million lower in 2019.
- 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, 2019 compared with 2018 was as follows.

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	PPL	PPL Electric	LKE	LG&E	KU
Decrease (Increase)	\$ 53	\$ (15)	\$ 34	\$ 72	\$ (39)

For PPL, the decrease in expenditures was due to lower project expenditures at WPD, LKE and LG&E, partially offset by higher project expenditures at PPL Electric and KU. The decrease in expenditures at WPD was primarily due to a decrease in expenditures to enhance system reliability and a decrease in foreign currency exchange rates. The decrease in expenditures at LKE was primarily due to decreased spending for environmental water projects at LG&E's Mill Creek and Trimble County plants and KU's Ghent plant, offset by spending on various other projects at KU that are not individually significant. 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.

**Financing Activities**

(All Registrants)

The components of the change in cash provided by (used in) financing activities for the six months ended June 30, 2019 compared with 2018 were as follows.

	PPL	PPL Electric	LKE	LG&E	KU
Change - Cash Provided (Used)					
Debt issuance/retirement, net	\$ 235	\$ (398)	\$ 405	\$ 99	\$ 306
Debt issuance/retirement with affiliate, net	—	—	(250)	—	—
Stock issuances/redemptions, net	(112)	—	—	—	—
Dividends	(36)	7	—	10	45
Capital contributions/distributions, net	—	(425)	87	(18)	23
Change in short-term debt, net	(582)	185	(490)	(167)	(323)
Notes payable with affiliate	—	—	216	—	—
Other financing activities	(2)	3	(8)	(4)	(4)
<b>Total</b>	<b>\$ (497)</b>	<b>\$ (628)</b>	<b>\$ (40)</b>	<b>\$ (80)</b>	<b>\$ 47</b>

See Note 8 to the Financial Statements in this Form 10-Q for information on 2019 short-term and long-term debt activity, equity transactions and PPL dividends. See Note 8 to the Financial Statements in the Registrants' 2018 Form 10-K for information on 2018 activity.

**Credit Facilities**

The Registrants maintain credit facilities to enhance liquidity, provide credit support and provide a backstop to commercial paper programs. Amounts borrowed under these credit facilities are reflected in "Short-term debt" on the Balance Sheets. At June 30, 2019, the total committed borrowing capacity under credit facilities and the borrowings under these facilities were:

*External*

	Committed Capacity	Borrowed	Letters of Credit and Commercial Paper Issued	Unused Capacity
PPL Capital Funding Credit Facilities	\$ 1,550	\$ —	\$ 1,029	\$ 521
PPL Electric Credit Facility	650	—	186	464
LG&E Credit Facilities	500	—	96	404
KU Credit Facilities	598	—	198	400
Total LKE	1,098	—	294	804
<b>Total U.S. Credit Facilities (a)</b>	<b>\$ 3,298</b>	<b>\$ —</b>	<b>\$ 1,509</b>	<b>\$ 1,789</b>
Total U.K. Credit Facilities (b)	£ 1,055	£ 272	£ —	£ 783

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- (a) The commitments under the U.S. credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than the following percentages of the total committed capacity: PPL - 10%, PPL Electric - 6%, LKE - 22%, LG&E - 7% and KU - 37%.
- (b) The amounts borrowed at June 30, 2019 were a USD-denominated borrowing of \$200 million and GBP-denominated borrowings of £114 which equated to \$143 million. At June 30, 2019, the USD equivalent of unused capacity under the U.K. committed credit facilities was \$989 million.

The commitments under the U.K. credit facilities are provided by a diverse bank group, with no one bank providing more than 13% 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)*

	<b>Committed Capacity</b>	<b>Borrowed</b>	<b>Non-affiliate Used Capacity</b>	<b>Unused Capacity</b>
LKE Credit Facility	\$ 375	\$ 203	\$ —	\$ 172
LG&E Money Pool (a)	500	—	96	404
KU Money Pool (a)	500	—	—	500

- (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 12 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 facility. The following commercial paper programs were in place at June 30, 2019:

	<b>Capacity</b>	<b>Commercial Paper Issuances</b>	<b>Unused Capacity</b>
PPL Capital Funding	\$ 1,500	\$ 1,014	\$ 486
PPL Electric	650	185	465
LG&E	350	96	254
KU	350	—	350
Total LKE	700	96	604
Total PPL	\$ 2,850	\$ 1,295	\$ 1,555

### 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

#### **ATM**

In February 2018, PPL entered into an equity distribution agreement, pursuant to which PPL may sell, from time to time, up to an aggregate of \$1.0 billion of its common stock through an at-the-market offering program; including a forward sales component. The compensation paid to the selling agents by PPL may be up to 2% of the gross offering proceeds of the shares. There were no issuances under the ATM program for the three and six months ended June 30, 2019.

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### Common Stock Dividends

In May 2019, PPL declared a quarterly common stock dividend, payable July 1, 2019, of 41.25 cents per share (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.

### Rating Agency Actions

*(All Registrants)*

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 rating agencies have taken the following actions related to the Registrants and their subsidiaries during 2019:

*(PPL, LKE and LG&E)*

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

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

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

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

*(PPL, LKE and KU)*

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

### 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 15 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, 2019.

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(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' 2018 Form 10-K.

### **Risk Management**

#### **Market Risk**

(All Registrants)

See Notes 14 and 15 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 June 30, 2019.

	<b>Exposure Hedged</b>	<b>Fair Value, Net - Asset (Liability) (a)</b>	<b>Effect of a 10% Adverse Movement in Rates (b)</b>	<b>Maturities Ranging Through</b>
<b><u>PPL</u></b>				
Cash flow hedges				
Interest rate swaps (c)	\$ 316	\$ (8)	\$ (4)	2031
Cross-currency swaps (c)	702	163	(18)	2028
<b><u>Economic hedges</u></b>				
Interest rate swaps (d)	147	(24)	(1)	2033
<b><u>LKE</u></b>				
Economic hedges				
Interest rate swaps (d)	147	(24)	(1)	2033
<b><u>LG&amp;E</u></b>				
Economic hedges				
Interest rate swaps (d)	147	(24)	(1)	2033

(a) Includes accrued interest, if applicable.

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

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

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

The Registrants are exposed to a potential increase in interest expense and to changes in the fair value of their debt portfolios. The estimated impact of a 10% adverse movement in interest rates on interest expense at June 30, 2019 was insignificant for



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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, 2019 is shown below.

	<b>10% Adverse Movement in Rates</b>
PPL	\$ 672
PPL Electric	180
LKE	205
LG&E	87
KU	106

*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, 2019.

	<b>Exposure Hedged</b>	<b>Fair Value, Net - Asset (Liability)</b>	<b>Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)</b>	<b>Maturities Ranging Through</b>
Economic hedges (b)	£ 1,154	\$ 180	\$ (126)	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 2018 Form 10-K for additional information on revenue recognition under RIIO-ED1.
- PPL Electric, LG&E and KU are exposed to volumetric risk on retail sales, mainly due to weather and other economic conditions for which there is limited mitigation between rate cases.

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**Credit Risk** *(All Registrants)*

See Notes 14 and 15 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' 2018 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 \$84 million for the six months ended June 30, 2019, which primarily reflected a \$125 million decrease to PP&E, a \$23 million decrease to goodwill and an \$9 million decrease to other net assets, partially offset by a \$73 million decrease to long-term debt. 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. 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 12 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.

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

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

**Environmental Matters**

*(All Registrants)*

Extensive federal, state and local environmental laws and regulations are applicable to PPL's, PPL Electric's, LKE's, LG&E's and KU's air emissions, water discharges and the management of hazardous and solid waste, as well as other aspects of the Registrants' businesses. The 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 11 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' 2018 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

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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. In July 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 August 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 in the Registrants' 2018 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 Notes 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' 2018 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

**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, 2019, the Registrants' disclosure controls and procedures are effective to ensure that material information relating to the Registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this 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 controls 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 legal, tax, regulatory, environmental or other administrative proceedings that became reportable events or were pending in the second quarter of 2019 see:

- "Item 3. Legal Proceedings" in each Registrant's 2018 Form 10-K; and
- Notes 6, 7 and 11 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' 2018 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)-23 are incorporated herein by reference. Exhibits indicated by a [ ] are filed or listed pursuant to Item 601(b)(10) (iii) of Regulation S-K.

[\\*10\(a\)](#) - £50,000,000 Facility Agreement dated as of June 7, 2019, among Western Power Distribution plc, as the Borrower, National Westminster Bank plc as Original Lender, and National Westminster Bank plc as Agent

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended June 30, 2019, 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, 2019, 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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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  
104 - The Cover Page Interactive Data File is formatted as Inline XBRL and contained in Exhibits 101.

**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 6, 2019

/s/ Marlene C. Beers

---

Marlene C. Beers  
Vice President and Controller  
(Principal Accounting Officer)

**PPL Electric Utilities Corporation**

(Registrant)

Date: August 6, 2019

/s/ Stephen K. Breininger

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Stephen K. Breininger  
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 6, 2019

/s/ Kent W. Blake

---

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

**WESTERN POWER DISTRIBUTION PLC**  
AS THE BORROWER

**NATIONAL WESTMINSTER BANK PLC**  
AS ORIGINAL LENDER

and

**NATIONAL WESTMINSTER BANK PLC**  
AS AGENT

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**£50,000,000 FACILITY AGREEMENT**

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**THIS AGREEMENT** is dated 7 June 2019

**BETWEEN:**

- (1) **WESTERN POWER DISTRIBUTION PLC** (registered number 09223384) (the “**Borrower**”);
- (2) **NATIONAL WESTMINSTER BANK PLC** as original lender (the “**Original Lender**”); and
- (3) **NATIONAL WESTMINSTER BANK PLC** as agent of the other Finance Parties (the “**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.

“**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 the period from and including the date of this Agreement to and including the date falling 10 Business Days after the date of this Agreement.

“**Available Commitment**” means a Lender’s Commitment minus:

- (a) the amount (if any) of its participation in any outstanding Loan; and
- (b) in relation to any proposed Loan, the amount of its participation in any Loan that is 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.

“**Bank Levy**” means any amount payable by a Finance Party or any of its Affiliates on the basis of, or in relation to, its balance sheet or capital base or any part of that person or its liabilities or minimum regulatory capital or any combination thereof (including the United Kingdom bank levy as set out in the Finance Act 2011 (as amended), the French *taxe de risque systémique* as set out in Article 235 ter ZE of the French Tax Code and the French *taxe pour le financement du fonds de soutien aux collectivités territoriales* as set out in Article 235 ter ZE bis of the French Tax Code, the German bank levy as set out in the German Restructuring Fund Act 2010 (*Restrukturierungsfondsgesetz*) and the Dutch *bankenbelasting* as set out in the Dutch bank levy act (*Wet bankenbelasting*) or any other implementing rules connected therewith and any tax in any other jurisdiction levied on a similar basis or for a similar purpose) or any financial activities taxes (or other taxes) of a kind contemplated in the European Commission consultation paper on financial sector taxation dated 22 February 2011, in each case which is currently in force or envisaged.

“**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”.

“**Blocking Regulation**” has the meaning given to that term in Clause 18.18.4 (*Sanctions*).

“**Break Costs**” means the amount (if any) by which:

- (a) the interest (excluding the Margin) which a Lender would have received for the period from the date of receipt of any part of its participation in a Loan or Unpaid Sum to the last day of the applicable Interest Period for that Loan or Unpaid Sum if the principal or Unpaid Sum received had been paid on the last day of that Interest Period;

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 Interest Period.

“**Business Day**” means a day (other than a Saturday or a Sunday) on which commercial banks are open for general business in London.

“**Calculation Date**” means the last day of a Calculation Period, being 31 March or 30 September.

“**Calculation Period**” means each period of twelve months ending on 31 March or 30 September.

“**Cash**” has the meaning given to that term in Clause 20 (*Financial Covenants*).

“**Cash Equivalent Investments**” has the meaning given to that term in Clause 20 (*Financial Covenants*).

“**Code**” means the US Internal Revenue Code of 1986.

“**Commitment**” means:

- (a) in relation to the 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; and
- (b) in relation to any other Lender, the amount of any Commitment transferred to it under this Agreement,

to the extent not cancelled, reduced or transferred by it under this Agreement.

“**Competitor**” means any person that is, or is an Affiliate or Related Fund of, a person that is:

- (a) a competitor of the Group in respect of the Permitted Business; or
- (b) an Infrastructure Equity Investment Fund, **provided** that in the case of an Affiliate of such a person, any such Affiliate managed independently of such person and which has appropriate information barriers put in place between it and such a person will not constitute a “Competitor”.

“**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 32 (*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 Extended 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 Agent.

“**Consolidated EBITDA**” has the meaning given to that term in Clause 20 (*Financial Covenants*).

“**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 Agent or the Borrower (which has notified the Agent) that it will not make its participation in a Loan available by the Drawdown Date in accordance with Clause 5.4 (*Advance of Loan*);
- (b) which has otherwise rescinded or repudiated a Finance Document;
- (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; andpayment is made within three Business Days of its due date; or
- (ii) the relevant 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 Facility (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 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 the date on which the Loan is made.

“**Eligible Institution**” means any Lender or other bank, financial institution, trust, fund or other entity selected by the Borrower.

“**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 Clause 22 (*Events of Default*).

“**Existing Lender**” has the meaning given to that term in Clause 29.1 (*Assignments and transfers by the Lenders*).

“**Facility**” means the term loan facility made available under this Agreement as described in Clause 2.1 (*The Facility*).

“**Facility Office**” means the office(s) notified by a Lender to the Agent:

- (a) on or before the date it becomes a Lender; or following that date,
- (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; or
- (b) in relation to a “passthru payment” described in section 1471(d)(7) of the Code not falling within paragraph (a) above, the first date from which such payment may become subject to a deduction or withholding required by FATCA.

**“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.

**“Final Maturity Date”** means the date falling five years after the date of this Agreement.

**“Finance Document”** means:

- (a) this Agreement;
- (b) a Transfer Certificate;
- (c) an Assignment Agreement;
- (d) a Request; or
- (e) any other document designated as such by the Agent and the Borrower.

**“Finance Party”** means the Agent or a Lender.

**“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.

**“Funding Rate”** means any individual rate notified by a Lender to the Agent pursuant to paragraph (b) of Clause 10.4.1 (*Cost of funds*).

**“Group”** means the Borrower and its Subsidiaries.

**“Distressed Debt Fund”** means any trust, fund or other entity which is or would reasonably be recognised or categorised as a “distressed debt fund” by reputable institutions which are prominent participants in the financial markets. Distressed Debt Funds will be construed so as to include the debt trading desk (or equivalent) operated by a department of a bank or financial institution where that trading desk would be engaging in trading for or on behalf of an entity which itself constitutes a Distressed Debt Fund.

**“Hedge Fund”** means a pooled investment vehicle or similar entity that is commonly but not exclusively referred to in the financial marketplace as a “hedge fund” and having the following characteristics:

- (a) it generally seeks consistent levels of returns regardless of market conditions;
- (b) it generally uses complex strategies (which may include but not be limited to short-selling, use of leverage and arbitrage and derivatives transactions) in order to minimise market correlations with the goal of generating high returns (either in an absolute sense or over a specified market benchmark); and
- (c) it generally is open only to financially sophisticated investors.

Hedge Fund will be construed so as to include “vulture funds” and any pass-through or structured finance vehicles in whatever legal form which are used by a Hedge Fund as part of structuring an investment.

“**Holding Company**” means in relation to a person, any other person in respect of which it is a Subsidiary.

“**Impaired Agent**” means the 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 Agent otherwise rescinds or repudiates a Finance Document;
- (c) (if the Agent is also a Lender) it is a Defaulting Lender under paragraph (a), (b) or (c) of the definition of “**Defaulting Lender**”; or
- (d) an Insolvency Event has occurred and is continuing with respect to the 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; andpayment is made within three Business Days of its due date; or
- (ii) the Agent is disputing in good faith whether it is contractually obliged to make the payment in question.

“**Increased Cost**” means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return under a Finance Document or on a Lender’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 Lender or any of its Affiliates but only to the extent attributable to that Lender having entered into any Finance Document or funding or performing its obligations under any Finance Document.

“**Infrastructure Equity Investment Fund**” means an entity, a predominant portion of whose business involves making equity investments in infrastructure assets (but excluding, for the avoidance of doubt, any entity whose activities are solely the making, purchasing or investing in loans or debt securities or purely passive equity investments in infrastructure and which is an Affiliate or Related Fund of an Infrastructure Equity Investment Fund but is managed or controlled independently from such Infrastructure Equity Investment Fund or has established procedures which will prevent confidential information supplied to such entity from being transmitted or otherwise made available to such Infrastructure Equity Investment Fund).

“**Insolvency Event**” in relation to a Finance Party means that the relevant 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.

“**Interest Payable**” has the meaning given to that term in Clause 20 (*Financial Covenants*).

“**Interest Period**” means, in respect of the Loan, each period determined under this Agreement by reference to which interest on a Loan or an overdue amount is calculated.

**“Interpolated Screen Rate”** means, in relation to the 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 Interest Period of the Loan; and
- (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Interest Period of the 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) the Original Lender; or
- (b) any person which becomes a Party as a “Lender” after the date of this Agreement in accordance with Clause 28 (*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 the Loan:

- (a) the applicable Screen Rate as of the Specified Time for Sterling and for a period equal in length to the Interest Period of the Loan; or
- (b) as otherwise determined pursuant to Clause 10.1 (*Unavailability of Screen Rates*).

**“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 the loan made or to be made under the Facility or the principal amount outstanding for the time being of that loan.

“**Majority Lenders**” means a Lender or Lenders whose Commitments aggregate more than 66⅔ per cent. of the Total Commitments (or, if the Total Commitments have been reduced to zero, aggregated more than 66⅔ per cent. of the Total Commitments immediately prior to that reduction).

“**Margin**” means 1.40% per annum.

“**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
- (c) the validity or enforceability of the Finance Documents or the rights or remedies of the Finance Parties under any of the Finance Documents.

“**New Lender**” has the meaning given to that term in Clause 29.1 (*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 2018.

“**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, on or prior to the closing date of the acquisition, the Borrower has delivered a certificate to the Agent confirming that, taking into account the consideration payable in respect of the acquisition (including any associated costs and expenses and assuming the target entity (and its Subsidiaries) formed part of the Group as at the Calculation Date falling immediately prior to the closing date of such acquisition), no

Event of Default would have occurred under Clause 20.3 (*Interest cover*) or Clause 20.4 (*Asset cover*), in each case as at the Calculation Date falling immediately prior to the closing date of such acquisition.

**“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; or
  - (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 Agent.

**“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 the 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.

**“Qualifying Lender”** has the meaning given to it in Clause 12 (*Tax gross-up and Indemnities*).

**“Quotation 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 Quotation Day will be determined by the Agent in accordance with market practice in the Relevant Market (and if quotations would normally be given 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 Agent at its request by the Reference Banks:

- (a) if:

- (i) the Reference Bank is a contributor to the Screen Rate; and
- (ii) it consists of a single figure,

the rate (applied to the relevant Reference Bank and the relevant currency and period) which contributors to the Screen Rate are asked to submit to the relevant administrator;

- (b) in any other case, the rate at which the Relevant Reference Bank could fund itself in Sterling for the relevant period with reference to the unsecured wholesale funding market.

“**Reference Banks**” means the principal London offices of such banks or financial institutions as are appointed by the Agent in consultation with the Borrower and with the consent of any such bank or financial institution so appointed.

“**Regulatory Asset Value**” has the meaning given to that term in Clause 20 (*Financial Covenants*).

“**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, pursuant to Clause 18.19.2 (*Times for making representations*) to be repeated under this Agreement.

“**Representative**” means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

“**Request**” means a request for the Loan, substantially in the form set out in Schedule 3 (*Requests*).

“**Restricted Party**” means a person that is:

- (a) listed on, or owned or controlled (as such terms are defined by the relevant Sanctions Authority) by a person or persons listed on, or acting on behalf of a person listed on, any Sanctions List; or
- (b) incorporated under the laws of, or owned or (directly or indirectly) controlled by, or acting on behalf of, a person or persons located in or organized under the laws of a country or territory that is the target of country-wide or territory-wide Sanctions.

“**Sanctions**” means the economic, trade or financial sanctions laws, regulations or embargoes administered, enacted or enforced by a Sanctions Authority.

“**Sanctions Authorities**” means, together:

- (a) the US government;
- (b) the Security Council of the United Nations;
- (c) Her Majesty’s Treasury of the United Kingdom;

- (d) the European Union; or
- (e) the government institutions of any of the above, to the extent the economic, trade or financial sanctions laws, regulations and/or embargos are publicly available.

“**Sanctions List**” means the “Specially Designated Nationals and Blocked Persons” list maintained by OFAC, or any similar list maintained by, or public announcement of Sanctions designation made by, any of the Sanctions Authorities.

“**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 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.

“**Specified Time**” means a day or time determined in accordance with Schedule 7 (*Timetable*).

“**Subordination Deed**” means a document substantially 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.

“**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).

“**Tax Credit**” has the meaning given to it in Clause 12 (*Tax gross-up and Indemnities*).

“**Tax Deduction**” has the meaning given to it in Clause 12 (*Tax gross-up and Indemnities*).

“**Tax Payment**” means either the increase in a payment made by the Borrower to a Lender under Clause 12.2 (*Tax gross-up*) or a payment under Clause 12.3 (*Tax indemnity*).

“**Total Commitments**” means the aggregate of the Commitments, being £50,000,000 at the date of this Agreement.

“**Total Net Debt**” has the meaning given to that term in Clause 20 (*Financial Covenants*).

“**Transfer Certificate**” means a certificate, substantially in the form of Schedule 4 (*Form of Transfer Certificate*) or any other form agreed between the Agent and the Borrower.

“**Transfer Date**” means, in relation to an assignment or 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 Agent executes the relevant Assignment Agreement or Transfer Certificate.

“**Treaty Lender**” has the meaning given to it in Clause 12 (*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 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) a **group of Lenders** includes all the Lenders;
- (f) **indebtedness** includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money;
- (g) **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;
- (h) 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;

- (i) 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;
- (j) 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;
- (k) a currency is a reference to the lawful currency for the time being of the relevant country;
- (l) a Default or an Event of Default being **outstanding** means that it has not been remedied or waived;
- (m) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
- (n) a Clause, a paragraph or a Schedule is a reference to a clause or a paragraph of, or a schedule to, this Agreement;
- (o) a person includes its successors in title, permitted assigns and permitted transferees;
- (p) a Finance Document or another document is a reference to that Finance Document or other document as amended; and
- (q) a time of day is a reference to London time.

1.2.2 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.

1.2.3 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.

1.2.4 The headings in this Agreement do not affect its interpretation.

1.2.5 The determination of the extent to which a rate is “for a period equal in length” to an Interest Period shall disregard any inconsistency arising from the last day of that Interest Period 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 **Finance Parties’ rights and obligations.**

2.2.1 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.

2.2.2 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 paragraph 2.2.3 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 any 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 Agent on its behalf) is a debt owing to that Finance Party by the Borrower.

2.2.3 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 the application of any amount borrowed pursuant to this Agreement.

### **4. CONDITIONS PRECEDENT**

#### **4.1 Conditions precedent documents**

4.1.1 The Lenders will only be obliged to comply with Clause 5.4 (Advance of Loan) if, on or before the Drawdown Date, the Agent has received all of the documents and evidence set out in Schedule 2 in form and substance satisfactory to it (acting on the instructions of all the Lenders, acting reasonably) or, in respect of any such document or evidence, has notified the Borrower that it has waived the requirement for such document or evidence to be delivered. The Agent shall notify the Borrower and the Lenders promptly upon being so satisfied, or such waiver being given.

4.1.2 Other than to the extent that the Majority Lenders notify the Agent in writing to the contrary before the Agent gives the notification described in paragraph 4.1.1 above, the Lenders authorise (but do not require) the Agent to give that notification. The 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 Lenders will only be obliged to comply with Clause 5.4 (*Advance of Loan*) if, on the date of the Request and the Drawdown Date:

4.2.1 the Repeating Representations are correct in all material respects; and

4.2.2 no Event of Default is outstanding or would result from the Loan.

#### **4.3 Maximum number**

A Request may not be given if, as a result, there would be more than one Loan outstanding.

### **5. UTILISATION**

#### **5.1 Giving of Requests**

5.1.1 The Borrower may borrow the Loan by giving to the Agent a duly completed Request not later than the Specified Time.

5.1.2 The Request is irrevocable.

## 5.2 Completion of Requests

The Request 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 Interest Period complies with this Agreement.

## 5.3 Currency and amount

- 5.3.1 The currency specified in the Request must be Sterling.
- 5.3.2 The amount of the proposed Loan must:
  - (a) be a minimum of £5,000,000 and an integral multiple of £1,000,000 or, if less, the Available Facility; and
  - (b) not exceed the Total Commitments.

## 5.4 Advance of Loan

- 5.4.1 If the conditions set out in this Agreement have been met, each Lender must make its participation in the Loan available through its Facility Office by no later than 2.00 pm on the Drawdown Date.
- 5.4.2 The amount of each Lender's participation in the Loan will be equal to the proportion borne by its Available Commitment to the Available Facility immediately prior to making that Loan.
- 5.4.3 The Agent shall notify each Lender of the amount of each Loan and the amount of its participation in that Loan by the Specified Time.

## 6. REPAYMENT

### 6.1 Repayment of Loans

- 6.1.1 The Borrower must repay the 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

If, in any applicable jurisdiction, it becomes unlawful for any Lender to perform any of its obligations under a Finance Document or to fund or maintain its share in the Loan:

- 7.1.1 that Lender shall promptly notify the Agent upon becoming aware of that event;
- 7.1.2 upon the Agent notifying the Borrower, the Available Commitment of that Lender will be immediately cancelled; and

7.1.3 to the extent that the relevant Lender's participation has not been transferred pursuant to Clause 7.6 (*Right of repayment and cancellation in relation to a single Lender*), the Borrower shall repay that Lender's participation in the Loan on the last day of the Interest Period for the Loan occurring after the Agent has notified the Borrower or, if earlier, the date specified by that Lender in the notice delivered to the Agent (being no earlier than the last day of any applicable grace period permitted by law) and that Lender's corresponding Commitment shall be cancelled in the amount of the participations repaid.

## 7.2 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 becoming aware of such event, the Borrower shall give notice of such change of control to the 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 any Lender may, on 10 Business Days' notice to the Agent and to the Borrower, require the repayment of its share in the Loan and the cancellation of its Commitment; and

7.2.4 a Lender shall not be obliged to fund its participation in the Loan during the negotiation period set out in paragraph 7.2.2 above and, if no agreement is reached within such negotiation period, during the 10 Business Day notice period set out in paragraph 7.2.3 above.

## 7.3 Voluntary prepayment

7.3.1 The Borrower may, by giving not less than three Business Days' prior written notice to the Agent, prepay the Loan at any time in whole or in part.

7.3.2 A prepayment of part of the 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 made pursuant to this Clause 7.3 shall be applied *pro rata* to each Lender's participation in the Loan.

## 7.4 Automatic cancellation

The Available Commitments 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 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 under this Clause 7.5 shall reduce the Commitments of the Lenders rateably.

**7.6 Right of repayment and cancellation in relation to a single Lender**

- 7.6.1 If:
  - (a) any sum payable to any Lender by the Borrower is required to be increased under Clause 12.2.3 (*Tax gross-up*);
  - (b) any Lender gives notice under Clause 10.3 (*Market disruption*); or
  - (c) any Lender claims indemnification from the Borrower under Clause 12.3 (*Tax indemnity*) or Clause 13 (*Increased costs*),

the Borrower may, while the circumstance giving rise to the requirement for that increase or indemnification continues, give the Agent notice of cancellation of the Commitment(s) of that Lender and its intention to procure the repayment of that Lender's participation in the Loan.

- 7.6.2 On receipt of a notice referred to in paragraph 7.6.1 above in relation to a Lender, the Commitment of that Lender shall immediately be reduced to zero.
- 7.6.3 On the last day of each Interest Period which ends after the Borrower has given notice under paragraph 7.6.1 above (or, if earlier, the date specified by the Borrower in that notice), the Borrower shall repay that Lender's participation in the Loan together with all interest and other amounts accrued under the Finance Documents.

**7.7 Right of cancellation in relation to a Defaulting Lender**

- 7.7.1 If any Lender becomes a Defaulting Lender, the Borrower may, at any time whilst the relevant Lender continues to be a Defaulting Lender, give the Agent five Business Days' notice of cancellation of each Available Commitment of that Lender.
- 7.7.2 On the notice referred to in paragraph 7.7.1 above becoming effective, each Available Commitment of the Defaulting Lender shall immediately be reduced to zero.
- 7.7.3 The Agent shall as soon as practicable after receipt of a notice referred to in paragraph 7.7.1 above, notify all the Lenders.

**7.8 No re-borrowing of Loans**

The Borrower may not re-borrow any part of the Facility which is prepaid.

**7.9 Miscellaneous provisions**

- 7.9.1 Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.
- 7.9.2 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.
- 7.9.3 No amount of the Total Commitments cancelled under this Agreement may subsequently be reinstated.
- 7.9.4 If all or part of a Lender's participation in the 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 the Loan for each Interest Period is the percentage rate per annum equal to the aggregate of the applicable:

- 8.1.1 Margin; and
- 8.1.2 LIBOR,

and, if that aggregate number is less than zero, the rate of interest shall be deemed to be zero.

### **8.2 Payment of interest**

The Borrower must pay accrued interest on the Loan made to it on the last day of each Interest Period.

### **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, interest shall accrue on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment at a rate which is one per cent. per annum higher than 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 successive Interest Periods of any duration of up to three months selected by the Agent (acting reasonably). Any interest accruing under this Clause 8.3.1 shall be immediately payable by the Borrower on demand by the Agent.
- 8.3.2 Notwithstanding Clause 8.3.1 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 Interest Period, then:
  - (a) the first Interest Period for that overdue amount will be the unexpired portion of that Interest Period; and
  - (b) the rate of interest on the overdue amount for that first Interest Period will be one per cent. per annum above the rate then payable on that Loan.



8.3.3 After the expiry of the first Interest Period for that overdue amount, the rate on the overdue amount will be calculated in accordance with Clause 8.3.1 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 Interest Periods but will remain immediately due and payable.

#### 8.4 Notification of rates of interest

8.4.1 The Agent must promptly notify the Lenders and the Borrower of the determination of a rate of interest under this Agreement.

8.4.2 The Agent must promptly notify the Borrower of each Funding Rate relating to the Loan.

### 9. INTEREST PERIODS

#### 9.1 Interest Periods

9.1.1 Each Interest Period for the Loan will be three months.

9.1.2 An Interest Period for a Loan shall start on the Drawdown Date or (if already made) on the last day of its preceding Interest Period.

#### 9.2 No overrunning the Final Maturity Date

If an Interest Period would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on such Final Maturity Date.

### 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 Interest Period of the Loan, the applicable LIBOR shall be the Interpolated Screen Rate for a period equal in length to the Interest Period of the Loan.

10.1.2 *Reference Bank Rate*: If no Screen Rate is available for LIBOR for the Interest Period of the Loan and it is not possible to calculate the Interpolated Screen Rate, the applicable LIBOR shall be the Reference Bank Rate as of the Specified Time for a period equal in length to the Interest Period of the Loan.

10.1.3 *Cost of funds*: If Clause 10.1.2 above applies but no Reference Bank Rate is available for the relevant Interest Period, there shall be no LIBOR for the Loan and Clause 10.4 (*Cost of funds*) shall apply to the Loan for that Interest Period.

#### 10.2 Calculation of Reference Bank Rate

10.2.1 Subject to Clause 10.2.2 below, if LIBOR is to be determined on the basis of a Reference Bank Rate but a Reference Bank does not supply a quotation by the Specified Time, the Reference Bank Rate shall be calculated on the basis of the quotations of the remaining Reference Bank Rates.

10.2.2 If at or about noon on the Quotation Day, none or only one of the Reference Banks supplies a quotation, there shall be no Reference Bank Rate for the relevant Interest Period.

### 10.3 Market disruption

If, before close of business on the Quotation Day for the relevant Interest Period, the Agent receives notifications from a Lender or Lenders (whose participations in the Loan exceed 50 per cent. of the 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 10.4 (*Cost of funds*) shall apply to the Loan for the relevant Interest Period.

### 10.4 Cost of funds

10.4.1 If this Clause 10.4 applies, the rate of interest on each Lender's share of the Loan for the relevant Interest Period shall be the percentage rate per annum which is the sum of:

- (a) the Margin; and
- (b) the weighted average of the rates notified to the Agent by each Lender as soon as practicable and in any event by close of business on the date falling one Business Day after the Quotation Date (or, if earlier, on the date falling one Business Day before the date on which interest is due to be paid in respect of that Interest Period), to be that which expresses as a percentage rate per annum the cost to the relevant Lender of funding its participation in the Loan from whatever source it may reasonably select.

10.4.2 If this Clause 10.4 applies and the Agent or the Borrower so requires, the 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.

10.4.3 Any alternative basis agreed pursuant to Clause 10.4.2 above shall be binding on all Parties.

10.4.4 If this Clause 10.4 applies pursuant to Clause 10.3 (*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 Clause 10.4.1 above,

the cost to that Lender of funding its participation in the Loan for that Interest Period shall be deemed, for the purposes of paragraph (b) of Clause 10.4.1 above, to be LIBOR.

### 10.5 Notification to Borrower

If Clause 10.4 (*Cost of funds*) applies, the Agent shall, as soon as is practicable, notify the Borrower.

### 10.6 Break Costs

10.6.1 The Borrower shall, within five Business Days of demand by a Lender, pay to that Lender its Break Costs attributable to all or any part of the Loan or any Unpaid Sum being paid by the Borrower on a day other than the last day of an Interest Period for the Loan or Unpaid Sum.

10.6.2 Each Lender shall, as soon as reasonably practicable after a demand by the Agent, provide a certificate confirming the amount of its Break Costs for any Interest Period in which they accrue.

## 11. UPFRONT FEE

### 11.1 Upfront Fee

- 11.1.1 Subject to Clause 11.1.3 below, the Borrower shall pay, or shall procure the payment of, to the Agent for the account of the Original Lender an upfront fee equal to 0.40 per cent. of the Total Commitments as at the date of this Agreement (the "Upfront Fee").
- 11.1.2 The Upfront Fee is payable on the Drawdown Date by way of deduction from the proceeds of the Loan, unless the Borrower confirms that the Upfront Fee will be funded from other sources, in which case it shall be payable on the Drawdown Date from such other sources.
- 11.1.3 Notwithstanding any other provision of this Agreement, if the Drawdown Date does not occur, then no fee or other amount is payable under this Clause 11.

## 12. TAX GROSS-UP AND INDEMNITIES

### 12.1 Definitions

- 12.1.1 In this Agreement:

"**Borrower DTTP Filing**" means an HM Revenue & Customs' Form DTTP2 duly completed and filed by the Borrower, which:

- (a) where it relates to a Treaty Lender that is the Original Lender, contains the scheme reference number and jurisdiction of tax residence stated opposite the Original Lender's in Schedule 1 (*The Original Parties*) and is filed with HM Revenue & Customs within 30 days of the date of this Agreement; or
- (b) where it relates to a Treaty Lender that is not the Original Lender, contains the scheme reference number and jurisdiction of tax residence stated in respect of that Lender in the documentation which it executes on becoming a Party as a Lender is filed with HM Revenue & Customs within 30 days of that date.

"**Protected Party**" means a Lender, to the extent such Lender is or will be subject to any liability, or required to make any payment, for or on account of Tax in relation to a sum received or receivable (or any sum deemed for the purposes of Tax to be received or receivable) under a Finance Document.

"**Qualifying Lender**" means:

- (a) a Lender which is beneficially entitled to interest payable to it 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:
    - (aa) a company so resident in the United Kingdom; or
    - (bb) 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:
  - (A) a company so resident in the United Kingdom; or
  - (B) 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, including the completion of any necessary procedural formalities.

“**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 the Original Lender and which gives a Tax Confirmation in the documentation which it executes on becoming a Party as a Lender.

- 12.1.2 Unless a contrary indication appears, in this Clause 12, a reference to “determines” or “determined” means a determination made in the absolute discretion of the person making the determination, acting in good faith.

## 12.2 Tax gross-up

- 12.2.1 The Borrower shall make all payments to be made by it without any Tax Deduction, unless a Tax Deduction is required by law.
- 12.2.2 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 Agent accordingly. Similarly, each Lender shall notify the Agent on becoming so aware in respect of a payment payable to that Lender. If the Agent receives such notification from a Lender it shall notify the Borrower.
- 12.2.3 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.
- 12.2.4 A payment shall not be increased under Clause 12.2.3 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 relevant 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 such Lender has received from the Borrower a certified copy of that Direction; and
    - (ii) the payment could have been made to the relevant 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 relevant Lender without any Tax Deduction if the relevant 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 (or would be a Treaty Lender on the completion of any procedural formalities) and the payment could have been made to that Lender without the Tax Deduction had that Lender complied with its obligations under sub-clause 12.2.7 below.
- 12.2.5 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.
- 12.2.6 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 Agent for the Lender entitled to the payment a statement under Section 975 of the ITA, or other evidence reasonably satisfactory to that Lender that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.
- 12.2.7
- (a) Subject to paragraph (b) below, a Treaty Lender (or a Lender that would be a Treaty Lender on the completion of any procedural formalities) and the Borrower shall co-operate in completing any procedural formalities necessary for the Borrower to obtain authorisation to make payments under the Finance Documents without a Tax Deduction.

- (b) A Treaty Lender (or a Lender that would be a Treaty Lender on the completion of any procedural formalities) which is:
  - (i) the Original Lender shall, if it holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to this Agreement, confirm its scheme reference number and its jurisdiction of tax residence opposite its name in Schedule 1 (*The Original Parties*);
  - (ii) not the Original Lender shall, if it holds a passport under the HMRC DT Treaty Passport scheme and wishes that scheme to apply to this Agreement, shall confirm its scheme reference number and its jurisdiction of tax residence in the documentation which it executes on becoming a Party as a Lender,

and, having done so, the Lender shall be under no obligation pursuant to paragraph (a) above.

12.2.8 If a Lender has confirmed its scheme reference number and its jurisdiction of tax residence in accordance with paragraph (b) of Clause 12.2.7 above and:

- (a) the Borrower has not made a Borrower DTTP Filing in respect of that Lender; or
- (b) the Borrower has made a Borrower DTTP Filing in respect of that Lender but:
  - (i) that Borrower DTTP Filing has been rejected by HM Revenue & Customs; or
  - (ii) HM Revenue & Customs has not given the Borrower authority to make payments to that Lender without a Tax Deduction within 60 days of the date of the Borrower DTTP Filing,

and in each case, the Borrower has notified that Lender in writing, that Lender and the Borrower shall co-operate in completing any additional procedural formalities necessary for the Borrower to obtain authorisation to make payments under the Finance Documents without a Tax Deduction.

12.2.9 If a Lender has not confirmed its scheme reference number and jurisdiction of tax residence in accordance with paragraph (b) of Clause 12.2.7, the Borrower shall not make a Borrower DTTP Filing or file any other form relating to the HMRC DT Treaty Passport scheme in respect of the relevant Lender's Commitment(s) or its participation in the Loan unless the relevant Lender otherwise agrees.

12.2.10 The Borrower shall, promptly on making a Borrower DTTP Filing, deliver a copy of that Borrower DTTP Filing to the Agent for delivery to the relevant Lender.

12.2.11 A UK Non-Bank Lender shall promptly notify the Borrower if there is any change in the position from that set out in the Tax Confirmation.

12.2.12 If a Lender has provided its DT Treaty Passport scheme reference number in accordance with Clause 12.2.7, it shall reasonably promptly notify 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.

### 12.3 Tax indemnity

- 12.3.1 The Borrower shall, within five Business Days of demand by the Agent, pay to a Protected Party an amount equal to the loss, liability or cost which that Protected Party determines has been (directly or indirectly) suffered for or on account of Tax by that Protected Party in respect of a Finance Document.
- 12.3.2 Clause 12.3.1 above does not apply to any Tax assessed on a Protected Party under the laws of the jurisdiction (or any political subdivision thereof) in which:
- (a) the relevant Protected Party is incorporated or, if different, the jurisdiction (or jurisdictions) in which the relevant Protected Party is treated as resident for tax purposes; or
  - (b) the relevant Protected Party's Facility Office or permanent establishment 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 (but not any sum deemed to be received or receivable) by the relevant Protected Party.
- 12.3.3 Clause 12.3.1 does not apply to any Tax assessed on the relevant Protected Party to the extent the loss, liability or cost:
- (a) is compensated for by an increased payment under Clause 12.2 (*Tax gross-up*);
  - (b) would have been compensated for by an increased payment under Clause 12.2 (*Tax gross-up*) but was not so compensated solely because one of the exclusions in Clause 12.2 (*Tax gross-up*) applied;
  - (c) relates to a FATCA Deduction required to be made by a Party;
  - (d) is compensated for by Clause 12.6 (*Stamp taxes*) or Clause 12.7 (*VAT*) (or would have been so compensated for under those Clauses but was not so compensated solely because any of the exceptions set out therein applied; or
  - (e) is suffered or incurred in respect of any Bank Levy (or any payment attributable to, or liability arising as a consequence of, a Bank Levy).
- 12.3.4 If a Protected Party is making, or is intending to make, a claim under Clause 12.3.1, it must promptly notify the Agent of the event which will give, or has given, rise to the claim, following which the Agent shall promptly notify the Borrower.
- 12.3.5 A Protected Party shall, on receiving a payment from the Borrower under this Clause 12.3, notify the Agent.

### 12.4 Tax Credit

If the Borrower makes a Tax Payment and the relevant Finance Party determines that:

- 12.4.1 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
- 12.4.2 the relevant Finance Party has obtained and utilised that Tax Credit,



the relevant Finance Party shall pay an amount to the Borrower which the relevant 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.

## 12.5 Lender Status Confirmation

Each Lender which is not the Original Lender shall represent, in the documentation which it executes on becoming a Party as a Lender which of the following categories it falls in:

- 12.5.1 not a Qualifying Lender;
- 12.5.2 a Qualifying Lender (other than a Treaty Lender); or
- 12.5.3 a Treaty Lender.

If such Lender fails to indicate its status in accordance with this Clause 12.5 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 Borrower which category applies. 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 that Lender to comply with this Clause 12.5.

## 12.6 Stamp taxes

The Borrower shall pay and, within five 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 an assignment, novation, transfer or sub-participation of the Loan by that Finance Party.

## 12.7 VAT

- 12.7.1 All amounts expressed to be payable under a Finance Document by the Borrower 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 12.7.2 below, if VAT is or becomes chargeable on any supply made by a Finance Party to the Borrower under a Finance Document and that Finance Party is required to account to the relevant tax authority for the VAT, the Borrower must pay to that 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 that Finance Party must promptly provide an appropriate VAT invoice to the Borrower).
- 12.7.2 Where a Finance Document requires the Borrower to reimburse or indemnify a Finance Party for any cost or expense, the Borrower shall reimburse or indemnify (as the case may be) that 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.
- 12.7.3 Any reference in this Clause 12.7 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).

12.7.4 In relation to any supply made by a Finance Party to the Borrower under a Finance Document if reasonably requested by that Finance Party, the Borrower must promptly provide that Finance Party with details of its VAT registration and such other information as is reasonably requested in connection with that Finance Party's VAT reporting requirements in relation to such supply.

## 12.8 FATCA Information

- 12.8.1 Subject to Clause 12.8.3 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;
  - (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.
- 12.8.2 If a Party confirms to another Party pursuant to paragraph (a) of Clause 12.8.1 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.
- 12.8.3 Clause 12.8.1 shall not oblige any Finance Party to do anything, and paragraph (c) of Clause 12.8.1 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.
- 12.8.4 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 Clause 12.8.1 (including, for the avoidance of doubt, where 12.8.3 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.

## 12.9 FATCA Deduction

- 12.9.1 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.

- 12.9.2 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 Agent and the Agent shall notify the other Finance Parties.

### 13. INCREASED COSTS

#### 13.1 Increased Costs

Except as provided below in this Clause, the Borrower must, within five Business Days of demand by the Agent, pay for the account of a Finance Party the amount of any Increased Cost incurred by that Finance Party or any of its Affiliates as a result of:

- 13.1.1 the introduction of, or any change in, or any change in the interpretation, administration or application of, any law or regulation;
- 13.1.2 compliance with any law or regulation made after the date of this Agreement (but, in respect of any regulation not having the force of law, only to the extent the relevant Finance Party or its Affiliate would be expected to comply); or
- 13.1.3 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, in the case of a New Lender, prior to the date on which it became a Lender, and provided in each case that such Lender confirms as such to the Borrower and that it is its general policy to charge such costs to similar borrowers of similar facilities.

#### 13.2 Exceptions

The Borrower need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- 13.2.1 compensated for under another Clause or would have been but for an exception to that Clause;
- 13.2.2 attributable to a Tax Deduction required by law to be made by the Borrower;
- 13.2.3 compensated for by Clause 12.3 (*Tax indemnity*) (or would have been compensated for under Clause 12.3 (*Tax indemnity*) but was not so compensated solely because any of the exclusions in Clause 12.3.2 or 12.3.3 applied);
- 13.2.4 attributable to a FATCA Deduction required to be made by a Party;
- 13.2.5 the subject of a claim by a Finance Party pursuant to Clause 13.1 (*Increased Costs*) notified to the Borrower 180 or more days from the date upon which the relevant Finance Party became aware of such Increased Cost;
- 13.2.6 suffered or incurred in respect of any Bank Levy (or any payment attributable to, or any liability arising as a consequence of, a Bank Levy);
- 13.2.7 compensated for by Clause 12.6 (*Stamp taxes*) or Clause 12.7 (*VAT*) (or would have been so compensated for under those Clauses but was not so compensated solely because any of the exceptions set out in the relevant Clause applied);

- 13.2.8 attributable to a Finance Party or its Affiliate wilfully failing to comply with any law or regulation; or
- 13.2.9 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, a Finance Party or any of its Affiliates).

### 13.3 **Claims**

A Finance Party intending to make a claim for an Increased Cost shall notify the Agent promptly and in any event within 180 days of the circumstances giving rise to, and the amount of, the claim (setting out, in reasonable detail, calculations thereof), following which the Agent shall promptly notify the Borrower.

## 14. **MITIGATION**

### 14.1 **Mitigation**

- 14.1.1 Each Finance Party shall, in consultation with the Borrower, 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 amount becoming payable under or pursuant to any of Clause 12 (*Taxes*) or Clause 13 (*Increased Costs*);
  - (b) the relevant Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
  - (c) the relevant 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 (but not limited to) transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.
- 14.1.2 No Finance Party is obliged to take any step under this Clause 14 if, in the opinion of the relevant Finance Party (acting reasonably), to do so might be prejudicial to it.
- 14.1.3 Each Finance Party must promptly notify the Agent of any circumstances as described in paragraphs (a) to (d) of Clause 14.1.1, following which the Agent shall promptly notify the Borrower.
- 14.1.4 The Borrower must indemnify each Finance Party for all costs and expenses reasonably incurred by such Finance Party as a result of any step taken under this Clause 14.
- 14.1.5 This Clause does not in any way limit the obligations of the Borrower under the Finance Documents.

## 15. **REPLACEMENT OF A SINGLE LENDER**

## 15.1 Replacement of a single Lender

15.1.1 Notwithstanding Clause 14 (*Mitigation*), if any circumstances arise which result in:

- (a) any Tax Payment or Increased Cost being payable to a Finance Party;
- (b) a Finance Party giving notice under Clause 10.3 (*Market disruption*);
- (c) a Finance Party being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality;
- (d) a Finance Party incurring any cost of complying with the minimum reserve requirements of the European Central Bank;
- (e) a Finance Party being a Defaulting Lender; or
- (f) 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 may by notice to the Agent require such Finance Party to (and to the extent permitted by law the relevant Finance Party shall) novate pursuant to Clause 28 (*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 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 the relevant Finance Party’s participation in the outstanding Loan and all accrued interest (to the extent the Agent has not given a notification under Clause 29.12.2 (*Pro rata interest settlement*)), Break Costs and other amounts payable to the relevant Finance Party under the Finance Documents **provided that:**

- (i) the Borrower shall have paid to the relevant Finance Party all amounts accrued and owing to relevant Finance Party hereunder;
- (ii) the Borrower shall have no right to replace the Agent;
- (iii) the relevant Finance Party shall have no obligation to the Borrower to find a Replacement Lender;
- (iv) the transfer must take place no later than 14 days after the notice referred to above; and
- (v) the relevant Finance Party shall only be obligated to transfer its rights and obligations pursuant to this Clause 15 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 Lender.

15.1.2 Each Finance Party shall perform the checks described in paragraph (v) of Clause 15.1.1 above as soon as reasonably practicable following delivery of a notice referred to in paragraph (f) of Clause 15.1.1 above and shall notify the Agent and the Borrower when it is satisfied that it has complied with those checks.

## 16. PAYMENT MECHANICS

### 16.1 Payments to the Agent

16.1.1 On each date on which the Borrower or a Lender is required to make a payment under a Finance Document, that Party shall make the same available to the Agent (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Agent as being customary at the time for settlement of transactions in the relevant currency in the place of payment.

16.1.2 Payment shall be made to such account in London with such bank as the Agent specifies.

### 16.2 Distributions by the Agent

Each payment received by the Agent under the Finance Documents for another Party shall, subject to Clause 16.3 (*Distributions to the Borrower*) and Clause 16.4 (*Clawback and pre-funding*) be made available by the Agent as soon as practicable after receipt to the Party entitled to receive payment in accordance with this Agreement (in the case of a Lender, for the account of its Facility Office), to such account at such bank as that Party may notify to the Agent by not less than five Business Days' notice with a bank in London specified by that Party.

### 16.3 Distributions to the Borrower

The Agent may (with the consent of the Borrower or in accordance with Clause 17 (*Set-Off*)) apply any amount received by it for the Borrower in or towards payment (on the date and in the currency and funds of receipt) of any amount due from the Borrower under the Finance Documents, or in or towards purchase of any amount of any currency to be so applied.

### 16.4 Clawback and pre-funding

16.4.1 Where a sum is to be paid to the Agent under the Finance Documents for another Party, the Agent is not obliged to pay that sum to that other Party (or to enter into or perform any related exchange contract) until it has been able to establish to its satisfaction that it has actually received that sum.

16.4.2 Unless Clause 16.4.3 below applies, if the Agent pays an amount to another Party and it proves to be the case that the Agent had not actually received that amount, then the Party to whom that amount (or the proceeds of any related exchange contract) was paid by the Agent shall on demand refund the same to the Agent together with interest on that amount from the date of payment to the date of receipt by the Agent, calculated by the Agent to reflect its cost of funds.

16.4.3 If the Agent 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 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 Agent shall notify the Borrower of that Lender's identity and the Borrower shall, as soon as reasonably practicable following a demand, refund the relevant amount made available to it to the 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 Agent the amount (as certified by the Agent) which will indemnify the Agent against any

funding cost incurred by it as a result of paying out that sum before receiving those funds from that Lender.

## 16.5 Impaired Agent

16.5.1 If, at any time, the Agent becomes an Impaired Agent, the Borrower or a Lender (as applicable) which is required to make a payment under the Finance Documents to the Agent in accordance with Clause 16.1 (*Payments to the Agent*) may instead either:

- (a) pay that amount direct to the required recipient; or
- (b) if in its absolute discretion it considers that it is not reasonably practicable to pay that amount direct to the required recipient(s), 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 (as applicable) (the “**Paying Party**”) and designated as a trust account for the benefit of the Party or Parties beneficially entitled to that payment under the Finance Documents (the “**Recipient Party**” or the “**Recipient Parties**”).

In each case such payments must be made on the due date for payment under the Finance Documents.

16.5.2 All interest accrued on the amount standing to the credit of the trust account shall be for the benefit of the Recipient Party or the Recipient Parties *pro rata* to their respective entitlements.

16.5.3 A Party which has made a payment in accordance with this Clause 16.5 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.

16.5.4 Promptly upon the appointment of a successor Agent in accordance with Clause 30.12 (*Replacement of the Agent*), each Paying Party shall (other than to the extent that that Party has given an instruction pursuant to Clause 16.5.5) give all requisite instructions to the bank with which the trust account is held to transfer the amount (together with any accrued interest) to the successor Agent for distribution to the relevant Recipient Party or Recipient Parties in accordance with Clause 16.2 (*Distributions by the Agent*).

16.5.5 A Paying Party shall, promptly upon request by a Recipient Party and to the extent:

- (a) that it has not given an instruction pursuant to Clause 16.5.4 above; and
- (b) that it has been provided with the necessary information by that Recipient Party,

give all requisite instructions to the bank with which the trust account is held to transfer the relevant amount (together with any accrued interest) to that Recipient Party.

## 16.6 Partial payments

16.6.1 If the Agent receives a payment for application against amounts due in respect of any Finance Documents that is insufficient to discharge all the amounts then due and payable by the Borrower under those Finance Documents, the Agent shall apply that payment

towards the obligations of the Borrower under those Finance Documents in the following order:

- (a) *first*, in or towards payment *pro rata* of any unpaid amount owing to the Agent under the Finance Documents;
- (b) *second*, in or towards payment *pro rata* of any accrued interest, fee or commission due but unpaid under those Finance Documents;
- (c) *third*, in or towards payment *pro rata* of any principal due but unpaid under those Finance Documents; and
- (d) *fourth*, in or towards payment *pro rata* of any other sum due but unpaid under the Finance Documents.

16.6.2 The Agent shall, if so directed by the Majority Lenders, vary the order set out in Clauses 16.6.1(b) to 16.6.1(d) above

16.6.3 Clauses 16.6.1 and 16.6.2 above will override any appropriation made by the Borrower.

#### 16.7 No set-off by the Borrower

All payments to be made by the Borrower under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

#### 16.8 Business Days

16.8.1 Any payment under the Finance Documents which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).

16.8.2 During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement, interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

#### 16.9 Currency of account

16.9.1 Subject to Clauses 16.9.2 and 16.9.3 below, the sterling is the currency of account and payment for any sum due from the Borrower under any Finance Document.

16.9.2 Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.

16.9.3 Any amount expressed to be payable in a currency other than sterling shall be paid in that other currency.

#### 16.10 Change of currency

16.10.1 Unless otherwise prohibited by law, if more than one currency or currency unit are at the same time recognised by the central bank of any country as the lawful currency of that country, then:

- (a) any reference in the Finance Documents to, and any obligations arising under the Finance Documents in, the currency of that country shall be translated into,



or paid in, the currency or currency unit of that country designated by the Agent (after consultation with the Borrower); and

- (b) any translation from one currency or currency unit to another shall be at the official rate of exchange recognised by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by the Agent (acting reasonably).

16.10.2 If a change in any currency of a country occurs, this Agreement will, to the extent the Agent (acting reasonably after consultation with the Borrower), be amended to comply with any generally accepted conventions and market practice in the Relevant Market and otherwise to reflect the change in currency.

#### **16.11 Disruption to payment systems etc.**

If either the Agent determines (in its discretion) that a Disruption Event has occurred or the Agent is notified by the Borrower that a Disruption Event has occurred:

- 16.11.1 the Agent may, and shall if requested to do so by the Borrower, consult with the Borrower with a view to agreeing with the Borrower such changes to the operation or administration of the Facility as the Agent may deem necessary in the circumstances;
- 16.11.2 the Agent shall not be obliged to consult with the Borrower in relation to any changes mentioned in Clause 16.11.1 above if, in its opinion, it is not practicable to do so in the circumstances and, in any event, shall have no obligation to agree to such changes;
- 16.11.3 the Agent may consult with the Finance Parties in relation to any changes mentioned in Clause 16.11.1 above but shall not be obliged to do so if, in its opinion, it is not practicable to do so in the circumstances;
- 16.11.4 any such changes agreed upon by the Agent and the Borrower (whether or not it is finally determined that a Disruption Event has occurred) shall be binding upon the Parties as an amendment to (or, as the case may be, waiver of) the terms of the Finance Documents notwithstanding the provisions of Clause 27 (*Amendments and Waivers*);
- 16.11.5 the Agent shall not be liable for any damages, costs or losses to any person, any diminution in value or any liability whatsoever (including, without limitation, for negligence, gross negligence or any other category of liability whatsoever, but not including any claim based on the fraud of the Agent) arising as a result of its taking, or failing to take, any actions pursuant to or in connection with this Clause 16.11; and
- 16.11.6 the Agent shall notify the Finance Parties of all changes agreed pursuant to Clause 16.11.4 above.

#### **17. SET-OFF**

If an Event of Default is continuing, a Finance Party may set off any matured obligation due from the Borrower under the Finance Documents (to the extent beneficially owned by that Finance Party) against any matured obligation owed by that Finance Party to the Borrower, regardless of the place of payment, booking branch or currency of either obligation.

#### **18. REPRESENTATIONS**

##### **18.1 Representations**

The representations set out in this Clause are made by the Borrower to each Finance Party.

## 18.2 Status

It is a limited liability company, duly incorporated and validly existing under the laws of 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 a party and the transactions contemplated by those Finance Documents.

## 18.4 Legal validity

Subject to the Legal Reservations, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.

## 18.5 Non-conflict

Subject to the Legal Reservations, 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.

18.6.2 No Event of Default might reasonably be expected to result from the making of the Loan.

18.6.3 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or to which its assets are subject, in each case which has or is reasonably likely to have a Material Adverse Effect.

## 18.7 Authorisations

All authorisations required:

18.7.1 To enable it to enter into, exercise its rights and comply with its obligations under the Finance Documents to which it is a party; and

18.7.2 to make the Finance Documents admissible in evidence in England and Wales,

have been obtained or effected (as appropriate) and, subject to the Legal Reservations, are in full force and effect.

## 18.8 Financial statements

Its and each of the Distribution Companies' audited consolidated financial statements most recently delivered to the 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 present the consolidated financial condition of the relevant entity 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 **Litigation**

No litigation, arbitration or administrative proceedings against it are current or, to its knowledge, pending or threatened, in each case which are reasonably likely to be adversely determined and, if so adversely determined, are reasonably likely to have a Material Adverse Effect.

#### 18.10 **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.

#### 18.11 **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.

#### 18.12 **Governing Law and Enforcement**

18.12.1 The choice of English law as the governing law of the Finance Documents will be recognised and enforced in its jurisdiction of incorporation.

18.12.2 Any judgment obtained in England in relation to a Finance Document will be recognised and enforced in its jurisdiction of incorporation.

#### 18.13 **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 or the transactions contemplated by the Finance Documents (which for these purposes does not include a Transfer Certificate or other transfer or disposal of any Finance Party's rights or obligations under a Finance Document or any stamp, registration or similar tax that may be imposed on enforcement of any security).

#### 18.14 **No misleading information**

18.14.1 Save as disclosed to the Agent prior to the date of this Agreement, 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.

18.14.2 Nothing has occurred or been omitted from the information provided to the Agent 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.

#### 18.15 ***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.

#### 18.16 **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.

#### 18.17 **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.

#### 18.18 **Sanctions**

18.18.1 No member of the Group nor, to the knowledge of the Borrower, any of their directors or officers:

- (a) is a Restricted Party; or
- (b) is located or resident in or organised under the laws of a country or territory that is the subject of country-wide or territory-wide Sanctions; or
- (c) has received notice of, or is aware of, any claim, action, suit, proceeding or investigation against it with respect to Sanctions by any Sanctions Authority.

18.18.2 The Borrower shall ensure that each member of the Group will ensure that appropriate policies, procedures, controls and safeguards are in place designed to prevent any action being taken that would be contrary to 18.18.1.

18.18.3 Nothing in this Clause 18.18 shall create or establish an obligation or right for any member of the Group to the extent that, by agreeing to it, compliance with it, exercising it, having such obligation or right, or otherwise, it would be placed in violation of any law applicable to it.

18.18.4 The Borrower shall only represent or warrant under this Clause 18.18 to the extent that giving or complying with such representation does not result in any violation of, conflict with or liability under Council Regulation EC No.2271/96 (the "**Blocking Regulation**").

18.18.5 This Clause 18.18 shall only apply for the benefit of a Lender to the extent that the representation under this Clause 18.18 would not result in any violation of, conflict with or liability under the Blocking Regulation.

#### 18.19 **Times for making representations**

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- 18.19.1 The representations set out in this Clause are made by the Borrower on the date of this Agreement.
- 18.19.2 The representations in Clauses 18.2 (*Status*) to 18.5 (*Non conflict*) (inclusive), 18.6.1 (*No default*), 18.7 (*Authorisations*), 18.8 (*Financial statements*) and 18.12 (*Governing Law and Enforcement*) are deemed to be repeated by the Borrower on the first day of each Interest Period.
- 18.19.3 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 Borrower must supply to the Agent:
- (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.
- 19.1.2 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.

### 19.2 Form of Financial Statements

If any financial statement delivered or to be delivered to the Agent pursuant to Clause 19.1 (*Financial Statements*) is not to be or, as the case may be, has not been prepared in accordance with Applicable Accounting Principles:

- 19.2.1 the Borrower shall notify the Agent no later than concurrently with the delivery of the relevant financial statements;
- 19.2.2 if the effect of the change (when aggregated with any other change since the date of the Original Financial Statements) to the basis on which the relevant financial statements were prepared results in a deviation of equal to or greater than 3 per cent. from the result of the calculation of financial ratios in Clause 20.3 (*Interest Cover*) and Clause 20.4 (*Asset Cover*) and/or the definitions of the terms used in Clause 20 (*Financial Covenants*) had such change or changes (as applicable) not occurred, if the Agent so requests:
- (a) the Borrower shall deliver to the Agent a description of the change or changes (as applicable) and sufficient information to enable the Lenders to determine whether Clause 20.3 (*Interest Cover*) and Clause 20.4 (*Asset Cover*) have been complied with and to make an accurate comparison between the financial position indicated in those financial statements and the Original Financial Statements; and

- (b) the Borrower and the Agent shall enter into negotiations in good faith with a view to agreeing any amendments to this Agreement which may be necessary to ensure that the change does not result in any material alteration in the commercial effect of the financial ratios in Clause 20.3 (*Interest Cover*) and Clause 20.4 (*Asset Cover*) and/or the definitions of the terms used in Clause 20 (*Financial Covenants*);
- 19.2.3 if the amendments contemplated in paragraph 19.2.2 above 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
- 19.2.4 if the amendments contemplated in paragraph 19.2.2 above are not so agreed within 25 days, the Borrower shall, with all subsequent financial statements to be delivered to the Agent pursuant to Clause 19.1 (*Financial Statements*), deliver to the Agent sufficient information to enable the Lenders to determine whether Clause 20.3 (*Interest Cover*) and Clause 20.4 (*Asset Cover*) have been complied with and to make an accurate comparison between the financial position indicated in those financial statements and the Original Financial Statements.

### 19.3 Compliance Certificate

- 19.3.1 The Borrower must supply to the Agent a Compliance Certificate with each set of its financial statements delivered to the Agent under this Agreement.
- 19.3.2 Each Compliance Certificate must be signed by two directors of the Borrower.

### 19.4 Information - miscellaneous

The Borrower must supply to the Agent:

- 19.4.1 copies of all documents despatched by the Borrower to its creditors generally (or any class of them) (in each case other than any Affiliate of the Borrower) at the same time as they are despatched;
- 19.4.2 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;
- 19.4.3 written notice of the details of any proposed changes to a Licence which are reasonably likely to have a Material Adverse Effect as soon as reasonably practicable after becoming aware of the same; and
- 19.4.4 if an Event of Default is continuing, promptly on request by the Agent, such further information regarding the financial condition, business and operations of the Group as any Finance Party through the Agent may reasonably request.

### 19.5 Notification of Default

The Borrower must notify the Agent of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.

### 19.6 Use of websites

- 19.6.1 Except as provided below, the Borrower may deliver any information under this Agreement to the Agent by posting it on to an electronic website if:

- (a) the Borrower and the Agent designate an electronic website for this purpose;
- (b) the Borrower notifies the Agent of the address of and password for the website; and
- (c) the information posted is in a format agreed between the Borrower and the Agent.

19.6.2 The Borrower must promptly upon becoming aware of its occurrence, notify the 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.

## 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 Borrower (or a Holding Company of the 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 a 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 Agent or any Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the 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 relevant 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.

19.7.2 Each Lender shall promptly upon the request of the Agent supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Agent (for itself) in order for the Agent 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 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 within 90 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 Clause 21.5.3 (*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 Clause 21.5.3 (*Negative pledge*)).

**"Consolidated EBITDA"** means the consolidated net pre-taxation profits of the Group for a Calculation 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 Calculation Period.

**"Interest Payable"** means, in relation to any Calculation 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:

- (a) intra-Group items; and
- (b) any loans from Affiliates (other than any member of the Group) and shareholder loans to the extent that such 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:

- (a) intra-Group items; and

- (b) loans from Affiliates (other than any member of the Group) and shareholder loans, to the extent that such 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 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.
- 20.2.3 No item must be credited or deducted more than once in any calculation under this Clause.

## 20.3 Interest cover

The Borrower must ensure that the ratio of Consolidated EBITDA to Interest Payable is not, on the last day of each Calculation Period, less than 3:1.

## 20.4 Asset Cover

The Borrower must ensure that on the last day of each Calculation Period, Total Net Debt does not exceed 87.5% of the Regulatory Asset Value.

## 20.5 Calculation of Interest Payable

For the purpose of the financial covenant set out in Clause 20.3 (*Interest cover*), in relation to any Calculation 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 Calculation Period.

## 21. GENERAL COVENANTS

### 21.1 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.

### 21.2 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.

### 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 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.

### 21.5 Negative pledge

In this Clause 21.5, “**Quasi-Security**” means an arrangement or transaction described in Clause 21.5.2 below.

21.5.1 Except as provided below, none of the Borrower, any Distribution Company nor any Holding Company of a Distribution Company (to the extent such Holding Company is a member of the Group) may create or allow to exist any Security Interest or Quasi-Security on any of its assets.

21.5.2 Except as provided below, none of the Borrower, any Distribution Company nor any Holding Company of a Distribution Company (to the extent such Holding Company is a member of the Group) 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 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.

21.5.3 Clauses 21.5.1 and 21.5.2 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 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 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.

## 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).

21.6.2 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;
- (b) disposals on normal commercial terms of obsolete assets or assets no longer required for the purpose of the relevant member of the Group'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 member of the Group'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 six 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; and
- (g) 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 Clause 21.6.2) does not exceed 10% of the Regulatory Asset Value at the relevant time.

## 21.7 Environmental matters

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21.7.1 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.

21.7.2 The Borrower will, promptly upon becoming aware of the same, inform the 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.

## 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 Borrower shall not enter into any amalgamation, demerger, merger, corporate reconstruction or reorganisation.

## 21.10 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 taken as a whole from that carried on at the date of this Agreement.

## 21.11 Acquisitions

21.11.1 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).

21.11.2 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 Clause 21.6 (*Disposals*) above; or
- (b) any Permitted Acquisition.

## 21.12 Prohibition on 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.

### 21.13 Prohibitions 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).

### 21.14 Arm's length transactions

The Borrower shall not (and shall ensure that no member of the Group shall) enter into any material 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).

### 21.15 Pensions

21.15.1 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).

21.15.2 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.

### 21.16 Licence

The Borrower will procure that each Distribution Company will at all times:

21.16.1 comply with the terms of its Licence in all material respects;

21.16.2 without prejudice to the generality of Clause 21.16.1, comply with the ring fencing provisions of its 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 its Licence,

in each case if failure to do so would have or would be reasonably likely to have a Material Adverse Effect.

### 21.17 Dividends and Distribution

The Borrower (and any other member of the Group) will be permitted, at any time, to:

21.17.1 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);

21.17.2 repay or distribute any dividend or share premium reserve;

- 21.17.3 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 their Affiliates (not being members of the Group);
- 21.17.4 redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so;
- 21.17.5 make a loan to any of the shareholders of the Borrower or their Affiliates (not being members of the Group); or
- 21.17.6 repay or prepay any amount (in case or in kind) (including, without limitation, in respect of principal, interest, capitalised interest, commission, charges and fees) under any loan from the shareholders of the Borrower or their Affiliates (not being members of the Group),

**provided that**, on or prior to the date of such payment, the Borrower has delivered a certificate to the Agent confirming that, taking into account such payment, Total Net Debt will not exceed 85% and the Borrower will be in compliance with its obligations under Clause 20.3 (*Interest Cover*) in each case on each of the two immediately succeeding Calculation Dates.

## 21.18 Sanctions

- 21.18.1 The Borrower shall ensure that no member of the Group directly or indirectly:
  - (a) uses, lends, contributes or otherwise makes available any part of the proceeds of the Loan:
    - (i) for the purpose of financing any trade, business or other activities involving, or for the benefit of, any Restricted Party; or
    - (ii) in any other manner that results in any person being in breach of any Sanctions or becoming a Restricted Party; or
  - (b) funds all or part of any payment in connection with a Finance Document out of proceeds derived from transactions with a Restricted Party.
- 21.18.2 The Borrower shall ensure that each member of the Group will ensure that appropriate policies, procedures, controls and safeguards are in place designed to prevent any action being taken that would be contrary to Clause 21.18.1.
- 21.18.3 Nothing in this Clause 21.18 shall create or establish an obligation or right for any member of the Group to the extent that, by agreeing to it, compliance with it, exercising it, having such obligation or right, or otherwise, would be placed in violation of any law applicable to it.
- 21.18.4 The Borrower shall only undertake under this Clause 21.18 to the extent that giving or complying with such undertaking does not result in any violation of, conflict with or liability under the Blocking Regulation.
- 21.18.5 This Clause 21.18 shall only apply for the benefit of a Finance Party to the extent that this Clause 21.18 would not result in any violation of, conflict with or liability under the Blocking Regulation.

## 21.19 Anti-corruption law



21.19.1 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.

21.19.2 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.

## **22. EVENTS OF DEFAULT**

### **22.1 Events of Default**

Each of the events set out in this Clause (other than in Clause 22.14 (*Acceleration*)) is an Event of Default.

### **22.2 Non-payment**

The Borrower fails to pay any sum payable under any Finance Document when due unless its failure to pay is caused by:

- 22.2.1 administrative or technical error; or
- 22.2.2 a Disruption Event,

and payment is made within five Business Days of its due date.

### **22.3 Breach of other obligations**

22.3.1 The Borrower does not perform or comply with its obligations under Clause 20 (*Financial Covenants*).

22.3.2 The Borrower does not perform or comply with any of its other obligations under any Finance Document (other than those referred to in Clause 22.2 (*Non-payment*) and in Clause 22.3.1) in any material respect or any representation or warranty by the Borrower in this Agreement (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 20 Business Days of the earlier of the 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.

### **22.4 Cross-default**

22.4.1 Any Financial Indebtedness of the Borrower or any Distribution Company is not paid when due nor within any originally applicable grace period.

22.4.2 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).

- 22.4.3 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).
- 22.4.4 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).
- 22.4.5 No Event of Default will occur under this Clause 22.4:
- (a) in respect of any Financial Indebtedness in respect of:
    - (i) intra-Group items; or
    - (ii) loans from Affiliates (other than any member of the Group) and/or shareholder loans to the extent that such loans from Affiliates and/or shareholder loans are subordinated on the terms set out in a Subordination Deed; or
  - (b) unless and until the aggregate amount of such Financial Indebtedness falling within Clauses 22.4.1 to 22.4.4 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 Borrower:
- (a) it is unable to pay its debts generally as they fall due or is declared to be unable to pay its debts under applicable law;
  - (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 Borrower, 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 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.

22.6.2 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;
- (b) a voluntary solvent winding-up, amalgamation, reconstruction or reorganisation or otherwise part of a solvent scheme of arrangement;
- (c) any action, legal proceedings or other step over or relating to assets (other than, in the case of Clause 22.6.1(f), the shares of any immediate Subsidiary of the Borrower which is a Holding Company of any Distribution Company) the aggregate value of which does not exceed £20,000,000 (or its equivalent in other currencies).

## 22.7 Creditors' process

A distress, attachment, execution or other legal process (in each case other than to the extent such process is frivolous or vexatious) which is 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.

## 22.8 Licence

Either:

22.8.1 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

22.8.2 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.

## 22.9 Unlawfulness and invalidity

22.9.1 It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Documents in any material respect.

22.9.2 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.

**22.10 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 21.6 (*Disposals*).

**22.11 Repudiation and rescission of agreements**

The Borrower 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.

**22.12 Ownership of the Distribution Companies**

The Borrower ceases to own (directly or indirectly) 100% of the shares in any Distribution Company.

**22.13 Expropriation**

The authority or ability of the Borrower or any Distribution Company to conduct its business is limited or wholly or substantially curtailed by any seizure, expropriation, nationalisation, intervention, restriction or other action by or on behalf of any governmental, regulatory or other authority or other person in relation to the Borrower or any Distribution Company or, in each case, any of their respective assets, in a manner or to an extent that has or is reasonably likely to have a Material Adverse Effect.

**22.14 Acceleration**

If an Event of Default is outstanding, the Agent may, and shall if so directed by the Majority Lenders, by notice to the Borrower:

22.14.1 cancel the Total Commitments; and/or

22.14.2 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 Agent.

Any notice given under this Clause will take effect in accordance with its terms.

**23. CONDUCT OF BUSINESS BY THE FINANCE PARTIES**

Subject to Clause 12.4 (*Tax Credit*), no provision of this Agreement will:

23.1.1 interfere with the right of any Finance Party to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;

23.1.2 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

23.1.3 oblige any Finance Party to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax.

## **24. EVIDENCE AND CALCULATIONS**

### **24.1 Accounts**

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by a Finance Party are *prima facie* evidence of the matters to which they relate.

### **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 365 days fixed.

## **25. OTHER INDEMNITIES**

### **25.1 Currency indemnity**

25.1.1 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.

25.1.2 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.

### **25.2 Other indemnities**

The Borrower shall within 15 days of demand indemnify the 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:

- 25.2.1 the occurrence of any Event of Default;
- 25.2.2 (other than by reason of negligence or default by a Finance Party) a Loan not being made after a Request has been delivered; or
- 25.2.3 the Loan (or part of the Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower.

### 25.3 Indemnity to the Agent

The Borrower shall within 15 days of demand indemnify the Agent against any cost, loss or liability incurred by the Agent (acting reasonably) as a result of:

- 25.3.1 investigating any event which it reasonably believes is a Default;
- 25.3.2 acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised; or
- 25.3.3 instructing lawyers, accountants, tax advisers, surveyors or other professional advisers or experts as permitted under this Agreement.

## 26. EXPENSES

### 26.1 Initial costs

The Borrower must pay to the Original Lender and the Agent promptly on demand the amount of all costs and expenses (including legal fees, subject to any agreed caps) reasonably incurred by it in connection with the negotiation, preparation, printing and execution of the Finance Documents.

### 26.2 Subsequent costs

The Borrower must pay to the Agent promptly on demand the amount of all costs and expenses (including legal fees, subject to any agreed caps) reasonably incurred by it in connection with:

- 26.2.1 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
- 26.2.2 any amendment, waiver or consent requested by or on behalf of the Borrower or specifically allowed by this Agreement.

### 26.3 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.

## 27. AMENDMENTS AND WAIVERS

### 27.1 Required consents

- 27.1.1 Subject to Clause 27.2 (*All Lender matters*), any term of the Finance Documents may be amended or waived only with the consent of the Majority Lenders and the Borrower and any such amendment or waiver will be binding on all Parties.
- 27.1.2 The Agent may effect, on behalf of any Finance Party, any amendment or waiver permitted by this Clause 27.
- 27.1.3 Without prejudice to the generality of Clauses 30.6.3 to 30.6.5 (inclusive) (*Rights and discretions*), the Agent may engage, pay for and rely on the services of lawyers in determining the consent level required for and effecting any amendment, waiver or consent under this Agreement.

27.1.4 Clause 29.12.2 (*Pro rata interest settlement*) applies to this Clause 27.

## 27.2 All Lender matters

27.2.1 Subject to Clause 27.2.2, Clause 27.4 (*Replacement of Screen Rate*) and Clause 27.5 (*Excluded Commitments*), an amendment, waiver of, or in relation to, any term of any Finance Document that has the effect of changing or which relates to:

- (a) the definition of “**Majority Lenders**”;
- (b) an extension to the date of payment of any amount under the Finance Documents;
- (c) a reduction in the Margin or a reduction in the amount of any payment of principal, interest, fees or commission payable under the Finance Documents, in each case other than pursuant to Clause 27.4 (*Replacement of Screen Rate*);
- (d) an increase in any 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) any provision which expressly requires the consent of all the Lenders;
- (f) Clause 2.2 (*Finance Parties’ rights and obligations*), Clause 29.1 (*Assignments and transfers by the Lenders*), Clause 38 (*Governing Law*), Clause 39 (*Enforcement*) or this Clause 27; and

shall not be made or given without the prior consent of all the Lenders.

27.2.2 An amendment or waiver which relates to the rights or obligations of the Agent or a Reference Bank (each in their capacity as such) may not be effected without the consent of the Agent or that Reference Bank (as the case may be).

## 27.3 Disenfranchisement of Defaulting Lenders

27.3.1 For so long as a Defaulting Lender has any Available Commitment, in ascertaining:

- (a) the Majority Lenders; or
- (b) whether:
  - (i) any given percentage (including, for the avoidance of doubt, unanimity) of the Total Commitments under the Facility; or
  - (ii) the agreement of a 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, that Defaulting Lender’s Commitments will be reduced by the amount of its Available Commitments and, to the extent that that reduction results in that Defaulting Lender’s Commitments being zero, that Defaulting Lender shall be deemed not to be a Lender for the purposes of paragraphs (a) and (b) above.

27.3.2 For the purposes of this Clause 27.3, the Agent may assume that the following Lenders are Defaulting Lenders:

- (a) any Lender which has notified the Agent that it has become a Defaulting Lender; and
- (b) any Lender in relation to which it is aware that any of the events or circumstances referred to in paragraph (a), (b) or (c) of the definition of “**Defaulting Lender**” has occurred,

unless it has received notice to the contrary from the Lender concerned (together with any supporting evidence reasonably requested by the Agent) or the Agent is otherwise aware that the relevant Lender has ceased to be a Defaulting Lender.

#### 27.4 Replacement of Screen Rate

27.4.1 If a Screen Rate Replacement Event has occurred in relation to LIBOR, any amendment or waiver which relates to:

- (a) providing for the use of a Replacement Benchmark in place of LIBOR; and
- (b)
  - (i) aligning any provision of any Finance Document to the use of that Replacement Benchmark;
  - (ii) enabling that Replacement Benchmark to be used for the calculation of interest under this Agreement (including, without limitation, any consequential changes required to enable that Replacement Benchmark to be used for the purposes of this Agreement);
  - (iii) implementing market conventions applicable to that Replacement Benchmark;
  - (iv) providing for appropriate fallback (and market disruption) provisions for that Replacement Benchmark; or
  - (v) adjusting the pricing to reduce or eliminate, to the extent reasonably practicable, any transfer of economic value from one Party to another as a result of the application of that Replacement Benchmark (and if any adjustment or method for calculating any adjustment has been formally designated, nominated or recommended by the Relevant Nominating Body, the adjustment shall be determined on the basis of that designation, nomination or recommendation),

may be made with the consent of the Agent (acting on the instructions of the Majority Lenders) and the Borrower.

27.4.2 If any Lender fails to respond to a request for an amendment or waiver described in Clause 27.4.1 above within 15 Business Days (or such longer time period in relation to any request which the Borrower and the Agent may agree) of that request being made:

- (a) its Commitment(s) shall not be included for the purpose of calculating the Total Commitments under the Facility when ascertaining whether any relevant percentage of Total Commitments has been obtained to approve that request; and



- (b) its status as a Lender shall be disregarded for the purpose of ascertaining whether the agreement of any specified group of Lenders has been obtained to approve that request.

27.4.3 In this Clause:

**“Relevant Nominating Body”** means any applicable central bank, regulator or other supervisory authority or a group of them, or any working group or committee sponsored or chaired by, or constituted at the request of, any of them or the Financial Stability Board.

**“Replacement Benchmark”** means a benchmark rate which is:

- (i) formally designated, nominated or recommended as the replacement for a Screen Rate by:
  - (A) the administrator of that Screen Rate (**provided** that the market or economic reality that such benchmark rate measures is the same as that measured by that Screen Rate); or
  - (B) any Relevant Nominating Body,and if replacements have, at the relevant time, been formally designated, nominated or recommended under both paragraphs, the “Replacement Benchmark” will be the replacement under paragraph (B) above;
- (ii) in the opinion of the Majority Lenders and the Borrower, generally accepted in the international or any relevant domestic syndicated loan markets as the appropriate successor to a Screen Rate; or
- (iii) in the opinion of the Majority Lenders and the Borrower, an appropriate successor to a Screen Rate.

**“Screen Rate Replacement Event”** means, in relation to a Screen Rate:

- (i) the methodology, formula or other means of determining that Screen Rate has, in the opinion of the Majority Lenders, and the Borrower materially changed;
- (ii)
  - (A)
    - (1) the administrator of that Screen Rate or its supervisor publicly announces that such administrator is insolvent; or
    - (2) information is published in any order, decree, notice, petition or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body which reasonably confirms that the administrator of that Screen Rate is insolvent,**provided** that, in each case, at that time, there is no successor administrator to continue to provide that Screen Rate;

- (B) the administrator of that Screen Rate publicly announces that it has ceased or will cease, to provide that Screen Rate permanently or indefinitely and, at that time, there is no successor administrator to continue to provide that Screen Rate;
  - (C) the supervisor of the administrator of that Screen Rate publicly announces that that Screen Rate has been or will be permanently or indefinitely discontinued; or
  - (D) the administrator of that Screen Rate or its supervisor announces that that Screen Rate may no longer be used; or
- (iii) the administrator of that Screen Rate determines that that Screen Rate should be calculated in accordance with its reduced submissions or other contingency or fallback policies or arrangements and either:
- (A) the circumstance(s) or event(s) leading to such determination are not (in the opinion of the Majority Lenders and the Borrower) temporary; or
  - (B) that Screen Rate is calculated in accordance with any such policy or arrangement for a period no less than 15 Business Days; or
- (iv) in the opinion of the Majority Lenders and the Borrower, that Screen Rate is otherwise no longer appropriate for the purposes of calculating interest under this Agreement.

## 27.5 Excluded Commitments

- 27.5.1 If any Lender fails to respond to a request for a consent, waiver, amendment of or in relation to any of the terms of any Finance Document or other vote of Lenders under the terms of this Agreement within 10 Business Days of that request being made (unless the Borrower and the Agent agree to a longer time period in relation to any request) then:
- (a) its Commitment and/or participation shall not be included for the purpose of calculating the Total Commitments or participations under the relevant Facilities 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 or carry that vote (as applicable); and
  - (b) its status as a Lender shall be disregarded for the purpose of ascertaining whether the agreement of any specified group of Lenders has been obtained to approve that request or carry that vote (as applicable).
- 27.5.2 In connection with any request or vote in relation to any consent, waiver, amendment or breach of or in relation to any part of Clause 18.18 (*Sanctions*) or Clause 21.18 (*Sanctions*) of which a Lender notifies the Agent that it does not have the benefit:
- (a) its Commitment and/or participation shall not be included for the purpose of calculating the Total Commitments or participations under the relevant Facilities 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 or carry that vote (as applicable); and

- (b) its status as a Lender shall be disregarded for the purpose of ascertaining whether the agreement of any specified group of Lenders has been obtained to approve that request or carry that vote (as applicable).

#### 27.6 **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 Finance Document. 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.

#### 28. **CHANGES TO THE BORROWER**

The Borrower may not assign or transfer any of its rights and obligations under the Finance Documents.

#### 29. **CHANGES TO THE LENDERS**

##### 29.1 **Assignments and transfers by the Lenders**

Subject to this Clause 29, a Lender (an “**Existing Lender**”) may:

- 29.1.1 assign any of its rights;
- 29.1.2 transfer by novation any of its rights and/or obligations; and/or
- 29.1.3 enter into a sub-participation in respect of its rights,

under the Finance Documents to another bank or financial institution or to a 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 (a “**New Lender**”).

##### 29.2 **Borrower consent**

- 29.2.1 The consent of the Borrower is required for any (i) assignment; (ii) transfer; or (iii) sub-participation involving the transfer of voting rights (a “**Voting Sub-participation**”) unless the assignment, transfer of Voting Sub-participation is:
  - (a) to another Lender or an Affiliate of any Lender; or
  - (b) made at a time when an Event of Default is continuing.
- 29.2.2 The consent of the Borrower must not be unreasonably withheld or delayed. The Borrower will be deemed to have given its consent 10 Business Days after the Existing Lender has requested it unless consent is expressly refused by the Borrower within that time.
- 29.2.3 Notwithstanding the foregoing, the prior consent of the Borrower shall be required (and the provision of Clause 29.2.2 shall not apply) if the assignment or transfer or Voting Sub-Participation is to a person which is (i) a Competitor, (ii) a Distressed Debt Fund or (iii) a Hedge Fund, unless in the case of an assignment or transfer to a Distressed

Debt Fund or a Hedge Fund only, such assignment or transfer is made when an Event of Default is continuing.

### 29.3 Other conditions of assignment or transfer

29.3.1 An assignment will only be effective on:

- (a) receipt by the Agent in the Assignment Agreement of written confirmation from the New Lender (in form and substance satisfactory to the Agent) that the New Lender will assume the same obligations to the other Finance Parties as it would have been under had it been the Original Lender; and
- (b) performance by the Agent of all necessary “know your customer” or other similar checks under all applicable laws and regulations in relation to such assignment to a New Lender, the completion of which the Agent shall promptly notify to the Existing Lender and the New Lender.

29.3.2 A transfer will only be effective if the procedure set out in Clause 29.5 (*Procedure for transfer*) is complied with.

29.3.3 Each New Lender must:

- (a) enter into a Confidentiality Undertaking prior to entering into any assignment or transfer pursuant to this Clause 29; and
- (b) confirm to the Borrower and the relevant Existing Lender in its Transfer Certificate, Assignment Agreement or, in the case of a Voting Sub-Participation, otherwise in writing that it is not an entity referred to in Clause 29.2.3 (*Borrower consent*).

29.3.4 The Existing Lender must provide the Borrower with details of the full legal name of the recipient of any voting rights where a Voting Sub-Participation occurs.

29.3.5 Any transfer by an Existing Lender shall be of a minimum amount of £10,000,000 and shall not be permitted if it would result in the aggregate Commitments of any Lender being less than £10,000,000 (unless, in each case, the Existing Lender is transferring its entire Commitment).

29.3.6 Each New Lender, by executing the relevant Transfer Certificate or Assignment Agreement, confirms, for the avoidance of doubt, that the 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 transfer or assignment becomes effective in accordance with this Agreement, and that it is bound by that decision to the same extent as the Existing Lender would have been had it remained a Lender.

### 29.4 Assignment or transfer fee

The New Lender shall, on the date upon which an assignment or transfer takes effect, pay to the Agent (for its own account) a fee of £2,500.

### 29.5 Procedure for transfer

29.5.1 Subject to the conditions set out in Clause 29.2 (*Borrower consent*) and Clause 29.3 (*Other conditions of assignment or transfer*), a transfer is effected in accordance with

Clause 29.5.3 below when the Agent executes an otherwise duly completed Transfer Certificate delivered to it by the Existing Lender and the New Lender and the Agent makes a corresponding entry in the Register pursuant to Clause 29.7 (*The Register*). The Agent shall, subject to Clause 29.5.2 below, as soon as reasonably practicable after receipt by it of a duly completed Transfer Certificate appearing on its face to comply with the terms of this Agreement and delivered in accordance with the terms of this Agreement, execute that Transfer Certificate, and make such corresponding entry in the Register.

- 29.5.2 The Agent shall only be obliged to execute a Transfer Certificate delivered to it by the Existing Lender and the New Lender and make a corresponding entry in the Register 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 such New Lender.
- 29.5.3 Subject to Clause 29.12.2 (*Pro rata interest settlement*), on the Transfer Date:
- (a) to the extent that in the Transfer Certificate the Existing Lender seeks to transfer by novation its rights and obligations under the Finance Documents, the Borrower and the Existing Lender shall be released from further obligations towards one another under the Finance Documents and their respective rights against one another under the Finance Documents shall be cancelled (being the “**Discharged Rights and Obligations**”);
  - (b) the Borrower and the New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as the Borrower and the New Lender have assumed and/or acquired the same in place of the Borrower and the Existing Lender;
  - (c) the Agent, the New Lender and the other Lenders shall acquire the same rights and assume the same obligations between themselves as they would have acquired and assumed had the New Lender been the Original Lender with the rights and/or obligations acquired or assumed by it as a result of the transfer, and to that extent that the Agent and the Existing Lender shall each be released from further obligations to each other under the Finance Documents; and
  - (d) the New Lender shall become a Party as a Lender.

## 29.6 Procedure for assignment

- 29.6.1 Subject to the conditions set out in Clause 29.2 (*Borrower consent*) and Clause 29.3 (*Other conditions of assignment or transfer*), an assignment may be effected in accordance with Clause 29.6.3 below when the Agent executes an otherwise duly completed Assignment Agreement delivered to it by the Existing Lender and the New Lender. The Agent shall, subject to paragraph 29.6.2 below, 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.
- 29.6.2 The Agent shall only be obliged to execute an Assignment Agreement delivered to it by the Existing Lender and the New 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 assignment to such New Lender.

29.6.3 Subject to Clause 29.12.2 (*Pro rata interest settlement*), on the Transfer Date:

- (a) the Existing Lender will assign absolutely to the New Lender its 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.

29.6.4 Lenders may utilise procedures other than those set out in this Clause 29.6 to assign their rights under the Finance Documents (but not without the consent of the Borrower or unless in accordance with Clause 29.5 (*Procedure for transfer*), 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 29.2 (*Borrower consent*) and Clause 29.3 (*Other conditions of assignment or transfer*).

## 29.7 The Register

The Agent, acting for these purposes solely as an agent of the Borrowers, shall maintain a register (the “**Register**”) for the recordation of the names and addresses of the Lenders and the respective amounts of the Commitments and Loans of each Lender from time to time. The Agent shall update the Register to reflect any assignments or transfers made pursuant to this Clause 29 and, notwithstanding anything else in this Agreement, such assignments or transfers are not effective until reflected in the Register. Absent manifest error, the entries in the Register shall be conclusive and binding for all purposes and the Borrower, the Agent and the Lenders shall treat each person whose name is recorded in the Register as Lender hereunder for all purposes of this Agreement. The Agent shall make a copy of the Register available for inspection by the Borrower and the Borrowers upon reasonable prior notice.

## 29.8 Limitation of responsibility of Existing Lender

29.8.1 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.

29.8.2 The New Lender confirms to the Existing Lender 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.

29.8.3 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.

## 29.9 Costs resulting from change of Lender or Facility Office

If:

29.9.1 a Lender assigns or transfers any of its rights and obligations under the Finance Documents or changes its Facility Office; and

29.9.2 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 12 (Tax gross-up and indemnities), Clause 13 (*Increased costs*) or Clause 10.3 (*Market disruption*),

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.

## 29.10 Copy of Transfer Certificate, Assignment Agreement or Increase Confirmation to Borrower

The Agent shall, as soon as reasonably practicable after it has executed a Transfer Certificate or an Assignment Agreement, send to the Borrower a copy of that Transfer Certificate or Assignment Agreement.

## 29.11 Security over Lenders' rights

In addition to the other rights provided to the Lenders under this Clause 29, 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:

29.11.1 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

29.11.2 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:

- (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 relevant 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.

## 29.12 Pro rata interest settlement

29.12.1 If the 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 29.5 (*Procedure for transfer*) or any assignment pursuant to Clause 29.6 (*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 an Interest Period):

- (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 Interest Period; and
- (b) 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 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 29.12, have been payable to it on that date, but after deduction of the Accrued Amounts.

29.12.2 An Existing Lender which retains the right to the Accrued Amount pursuant to this Clause 29.12 but which does not have a Commitment shall be deemed not to be a Lender for the purposes of ascertaining whether the agreement of a 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.

## 30. ROLE OF THE AGENT

### 30.1 Appointment of the Agent

30.1.1 Each of the Lenders appoints the Agent to act as its agent under and in connection with the Finance Documents.

30.1.2 Each of the Lenders authorises the Agent to perform the duties, obligations and responsibilities and to exercise the rights, powers, authorities and discretions specifically given to the Agent under or in connection with the Finance Documents, together with any other incidental rights, powers, authorities and discretions.

### 30.2 Instructions

30.2.1 The 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 Agent in accordance with any instructions given to it by:
    - (i) all Lenders if the relevant Finance Document stipulates that 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.
- 30.2.2 The Agent shall be entitled to request instructions, or clarification of any instruction, from the Majority Lenders (or, if the relevant Finance Document stipulates that 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 and the Agent may refrain from acting unless and until it receives any such instructions or clarification that it has requested.
- 30.2.3 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 Agent by the Majority Lenders shall override any conflicting instructions given by any other Parties and will be binding on all Finance Parties.
- 30.2.4 The 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.
- 30.2.5 In the absence of instructions, the Agent may act (or refrain from acting) as it considers to be in the best interest of the Lenders.
- 30.2.6 The 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.

### 30.3 Duties of the Agent

- 30.3.1 The Agent's duties under the Finance Documents are solely mechanical and administrative in nature.
- 30.3.2 Subject to Clause 30.3.3 below, the Agent shall promptly forward to a Party the original or a copy of any document which is delivered to the Agent for that Party by any other Party.
- 30.3.3 Without prejudice to Clause 29.10 (*Copy of Transfer Certificate, Assignment Agreement to Company*), Clause 30.3.2 above shall not apply to any Transfer Certificate or to any Assignment Agreement.

- 30.3.4 Except where a Finance Document specifically provides otherwise, the Agent is not obliged to review or check the adequacy, accuracy or completeness of any document it forwards to another Party.
- 30.3.5 If the 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.
- 30.3.6 If the Agent is aware of the non-payment of any principal, interest, commitment fee or other fee payable to a Finance Party (other than the Agent) under this Agreement it shall promptly notify the other Finance Parties.
- 30.3.7 The Agent shall, within five Business Days of a request by the Borrower, provide to the Borrower a list of the current Lenders, their respective Commitments and contact details for any communication to be made or document to be delivered under or in connection with the Finance Documents, **provided** that the Agent shall have no obligation to provide such list more than once every Month.
- 30.3.8 The 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).

#### 30.4 **No fiduciary duties**

- 30.4.1 Nothing in any Finance Document constitutes the Agent as a trustee or fiduciary of any other person.
- 30.4.2 The Agent shall not be bound to account to any Lender for any sum or the profit element of any sum received by it for its own account.

#### 30.5 **Business with the Group**

The Agent may accept deposits from, lend money to and generally engage in any kind of banking or other business with any member of the Group.

#### 30.6 **Rights and discretions**

- 30.6.1 The 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.
- 30.6.2 The 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 22.2 (*Non-payment*)); and
  - (b) any right, power, authority or discretion vested in any Party or any group of Lenders has not been exercised.
- 30.6.3 The Agent may engage and pay for the advice or services of any lawyers, accountants, tax advisers, surveyors or other professional advisers or experts.
- 30.6.4 Without prejudice to the generality of paragraph 30.6.3 above or 30.6.5 below, the Agent may at any time engage and pay for the services of any lawyers to act as independent counsel to the Agent (and so separate from any lawyers instructed by the Lenders) if the Agent in its reasonable opinion deems this to be necessary or desirable.
- 30.6.5 The 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 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 it so relying.
- 30.6.6 The Agent may act in relation to the Finance Documents through its officers, employees and agents and the Agent shall not:
  - (a) be liable for any error of judgment made by any such person; or
  - (b) be bound to supervise, or be in any way responsible for any loss incurred by reason of misconduct, omission or default on the part of any such person,unless such error or such loss was directly caused by the Agent's gross negligence or wilful misconduct.
- 30.6.7 Unless a Finance Document expressly provides otherwise, the Agent may disclose to any other Party any information it reasonably believes it has received as agent under this Agreement.
- 30.6.8 Without prejudice to the generality of paragraph 30.6.7 above, the Agent:
  - (a) may disclose; and
  - (b) on the written request of the Borrower or the Majority Lenders shall, as soon as reasonably practicable, disclose, the identity of a Defaulting Lender to the Borrower and to the other Finance Parties.
- 30.6.9 Notwithstanding any other provision of any Finance Document to the contrary, the Agent is not 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.

- 30.6.10 Notwithstanding any provision of any Finance Document to the contrary, the 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 or the exercise of any right, power, authority or discretion, if it has grounds for believing that the repayment of such funds or adequate indemnity against, or security for, such risk or liability is not reasonably assured to it.
- 30.6.11 The Agent may at any time appoint an Affiliate, agent, attorney-in-fact or sub-agent (a “**Sub-Agent**”) as deemed necessary by the Agent, to exercise all or a part of its rights, powers and duties under this Agreement or any other Finance Document (and Clause 30.10 (*Lenders’ indemnity to the Agent*) shall also apply to a Sub-Agent in the performance of any activity under this Clause **provided** that no Lender shall be required to so indemnify such Sub-Agent where: (i) any cost, loss or liability arises by reason of such Sub-Agent’s gross negligence or wilful misconduct; or (ii) if the claim is based on the fraud of such Sub-Agent).

### 30.7 **Responsibility for documentation**

The Agent is not responsible or liable for:

- 30.7.1 the adequacy, accuracy or completeness of any information (whether oral or written) supplied by the Agent, 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;
- 30.7.2 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
- 30.7.3 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.

### 30.8 **No duty to monitor**

The Agent shall not be bound to enquire:

- 30.8.1 whether or not any Default has occurred;
- 30.8.2 as to the performance, default or any breach by any Party of its obligations under any Finance Document; or
- 30.8.3 whether any other event specified in any Finance Document has occurred.

### 30.9 **Exclusion of liability**

- 30.9.1 Without limiting paragraph 30.9.2 below (and without prejudice to any other provision of any Finance Document excluding or limiting the liability of the Agent), the Agent will not be liable (including, without limitation, for negligence or any other category of liability whatsoever) 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 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.
- 30.9.2 No Party (other than the Agent may take any proceedings against any officer, employee or agent of the Agent in respect of any claim it might have against the 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 Agent may rely on this Clause 30.9 subject to Clause 1.3 (*Third Party Rights*) and the provisions of the Third Parties Act.
- 30.9.3 The 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 Agent if the 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 Agent for that purpose.
- 30.9.4 Nothing in this Agreement shall oblige the Agent to carry out:
- (a) any “know your customer” 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,

on behalf of any Lender and each Lender confirms to the Agent 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 Agent.

- 30.9.5 Without prejudice to any provision of any Finance Document excluding or limiting the Agent's liability, any liability of the Agent arising under or in connection with any Finance Document shall be limited to the amount of actual loss which has been finally judicially determined to have been suffered (as determined by reference to the date of default of the 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 Agent at any time which increase the amount of that loss. In no event shall the 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 Agent has been advised of the possibility of such loss or damages.

### 30.10 Lenders' indemnity to the 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 Agent, within three Business Days of demand, against any cost, loss or liability (including, without limitation, for negligence or any other category of liability whatsoever) incurred by the Agent (otherwise than by reason of the Agent's gross negligence or wilful misconduct) (or, in the case of any cost, loss or liability pursuant to Clause 16.11 (*Disruption to payment systems etc.*), notwithstanding the Agent's negligence, gross negligence or any other category of liability whatsoever but not including any claim based on the fraud of the Agent) in acting as Agent under the Finance Documents (unless the Agent has been reimbursed by the Borrower pursuant to a Finance Document).

### 30.11 Resignation of the Agent

- 30.11.1 The Agent may resign and appoint one of its Affiliates acting through an office in London as successor by giving notice to the Lenders and the Borrower.
- 30.11.2 Alternatively, the 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 Agent.
- 30.11.3 If the Majority Lenders have not appointed a successor Agent in accordance with paragraph 30.11.2 above within 20 days after the relevant notice of resignation was given, the retiring Agent (after consultation with the Borrower) may appoint a successor Agent (acting through an office in London).
- 30.11.4 If the Agent wishes to resign because (acting reasonably) it has concluded that it is no longer appropriate for it to remain as agent and the Agent is entitled to appoint a successor Agent under paragraph 30.11.3 above, the Agent may (if it concludes (acting reasonably) that it is necessary to do so in order to persuade the proposed successor Agent to become a party to this Agreement as Agent) agree with the proposed successor Agent amendments to this Clause 30 and any other term of this Agreement dealing with the rights or obligations of the Agent consistent with then current market practice for the appointment and protection of corporate trustees and those amendments will bind the Parties.
- 30.11.5 The retiring Agent shall make available to the successor Agent such documents and records and provide such assistance as the successor Agent may reasonably request for the purposes of performing its functions as Agent under the Finance Documents.
- 30.11.6 The Agent's resignation notice shall only take effect upon the appointment of a successor.

- 30.11.7 Upon the appointment of a successor, the retiring Agent shall be discharged from any further obligation in respect of the Finance Documents (other than its obligations under paragraph 30.11.5 above) but shall remain entitled to the benefit of Clause 25.3 (*Indemnity to the Agent*) and this Clause 30. Any successor and each of the other Parties shall have the same rights and obligations among themselves as they would have had if such successor had been an original Party.
- 30.11.8 After consultation with the Borrower, the Majority Lenders may, by notice to the Agent, require it to resign in accordance with paragraph 30.11.2 above. In this event, the Agent shall resign in accordance with paragraph 30.11.2 above.
- 30.11.9 The Agent shall resign in accordance with paragraph 30.11.2 above (and, to the extent applicable, shall use reasonable endeavours to appoint a successor Agent pursuant to paragraph 30.11.3 above) if on or after the date which is three months before the earliest FATCA Application Date relating to any payment to the Agent under the Finance Documents, either:
- (a) the Agent fails to respond to a request under Clause 12.8 (*FATCA Information*) and the Borrower or a Lender reasonably believes that the 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 Agent pursuant to Clause 12.8 (*FATCA Information*) indicates that the Agent will not be (or will have ceased to be) a FATCA Exempt Party on or after that FATCA Application Date; or
  - (c) the Agent notifies the Borrower and the Lenders that the 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 believes that a Party may be required to make a FATCA Deduction that would not be required if the Agent were a FATCA Exempt Party, and the Borrower or that Lender, by notice to the Agent, requires it to resign.

### 30.12 Replacement of the Agent

- 30.12.1 After consultation with the Borrower, the Majority Lenders may, by giving 30 days' notice to the Agent (or, at any time the Agent is an Impaired Agent, by giving any shorter notice determined by the Majority Lenders) replace the Agent by appointing a successor Agent (acting through an office in London).
- 30.12.2 The retiring 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 Agent such documents and records and provide such assistance as the successor Agent may reasonably request for the purposes of performing its functions as Agent under the Finance Documents.
- 30.12.3 The appointment of the successor Agent shall take effect on the date specified in the notice from the Majority Lenders to the retiring Agent. As from that date, the retiring Agent shall be discharged from any further obligation in respect of the Finance Documents (other than its obligations under paragraph 30.12.2 above) but shall remain entitled to the benefit of this Clause 30 (and any agency fees for the account of the retiring Agent shall cease to accrue from (and shall be payable on) that date).

30.12.4 Any successor Agent and each of the other Parties shall have the same rights and obligations among themselves as they would have had if such successor had been an original Party.

### 30.13 Confidentiality

30.13.1 In acting as agent for the Finance Parties, the 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.

30.13.2 If information is received by another division or department of the Agent, it may be treated as confidential to that division or department and the Agent shall not be deemed to have notice of it.

### 30.14 Relationship with the Lenders

30.14.1 Subject to Clause 29.12 (*Pro rata interest settlement*), the Agent may treat the person shown in its records as Lender at the opening of business (in the place of the 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.

Any Lender may by notice to the 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 and (where communication by electronic mail or other electronic means is permitted under Clause 36.5 (*Electronic communication*)) 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, electronic mail address (or such other information), department and officer by that Lender for the purposes of Clause 36.2 (*Contact details*) and Clause 36.5 (*Electronic communication*), and the 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.

### 30.15 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 Agent 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:

30.15.1 the financial condition, status and nature of each member of the Group;



- 30.15.2 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;
- 30.15.3 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
- 30.15.4 the adequacy, accuracy or completeness of any information provided by the Agent, any Party or by 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.

### 30.16 Deduction from amounts payable by the Agent

If any Party owes an amount to the Agent under the Finance Documents, the Agent may, after giving notice to that Party, deduct an amount not exceeding that amount from any payment to that Party which the 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.

### 30.17 Role of Reference Banks

- 30.17.1 No Reference Bank is under any obligation to provide a quotation or any other information to the Agent.
- 30.17.2 No Reference Bank will be liable for any action taken by it under or in connection with any Finance Document, or for any quotation supplied by it to the Agent, unless directly caused by its gross negligence or wilful misconduct.
- 30.17.3 No Party (other than the relevant Reference Bank) may take any proceedings against any officer, employee or agent of any Reference Bank in respect of any claim it might have against that Reference Bank or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document, or to any quotation supplied by that Reference Bank to the Agent, and any officer, employee or agent of each Reference Bank may rely on this Clause 30.17 subject to Clause 1.3 (*Third Party rights*) and the provisions of the Third Parties Act.

### 30.18 Third party Reference Banks

A Reference Bank which is not a Party may rely on Clause 30.17 (*Role of Reference Banks*), and Clause 33 (*Confidentiality of Funding Rates and Reference Bank Quotations*) subject to Clause 1.3 (*Third Party Rights*) and the provisions of the Third Parties Act.

## 31. SHARING AMONG THE FINANCE PARTIES

### 31.1 Payments to Finance Parties

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If a Finance Party (a “**Recovering Finance Party**”) receives or recovers any amount from the Borrower other than in accordance with Clause 16 (*Payment Mechanics*) (a “**Recovered Amount**”) and applies that amount to a payment due under the Finance Documents, then:

- 31.1.1 the Recovering Finance Party shall, within three Business Days, notify details of the receipt or recovery to the Agent;
- 31.1.2 the Agent shall determine whether the receipt or recovery is in excess of the amount the Recovering Finance Party would have been paid had the receipt or recovery been received or made by the Agent and distributed in accordance with Clause 16 (*Payment Mechanics*), without taking account of any Tax which would be imposed on the Agent in relation to the receipt, recovery or distribution; and
- 31.1.3 the Recovering Finance Party shall, within three Business Days of demand by the Agent, pay to the *Agent* an amount (the “**Sharing Payment**”) equal to such receipt or recovery less any amount which the Agent determines may be retained by the Recovering Finance Party as its share of any payment to be made, in accordance with Clause 16.6 (*Partial payments*).

### 31.2 **Redistribution of payments**

The Agent shall treat the Sharing Payment 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 16.6 (*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 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 Recovered Amount equal to the Sharing Payment will be treated as not having been paid by the Borrower.

### 31.4 **Reversal of redistribution**

If any part of the Sharing Payment 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 Agent, pay to the Agent for the account of that Recovering Finance Party an amount equal to the appropriate part of its share of the Sharing Payment (together with an amount as is necessary to reimburse that Recovering Finance Party for its proportion of any interest on the Sharing Payment 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 31, 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 taking legal or arbitration proceedings, if:

- (a) it notified that other Finance Party of the legal or arbitration proceedings; and
- (b) that other Finance Party had an opportunity to participate in those legal or arbitration proceedings but did not do so as soon as reasonably practicable having received notice, and did not take separate legal or arbitration proceedings.

## **32. CONFIDENTIALITY AND DISCLOSURE OF INFORMATION**

### **32.1 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 32.2 (*Disclosure of Confidential Information*) and Clause 32.3 (*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.

### **32.2 Disclosure of Confidential Information**

Any Finance Party may disclose:

32.2.1 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 Clause 32.2 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;

32.2.2 to any person:

- (a) to (or through) whom it assigns or transfers (or may potentially assign or transfer) its rights and/or obligations under the Finance Documents or which succeeds (or which may potentially succeed) it as 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 Clause 32.2.2 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 Clause 32.2.2;
- (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 Lender charges, assigns or otherwise creates security (or may do so) pursuant to Clause 29.11 (*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 Clause 32.2.2, 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 Clause 32.2.2, 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 Clause 32.2.2 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;

32.2.3 to any person appointed by that Finance Party or by a person to whom paragraph (a) or (b) of Clause 32.2.2 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 Clause 32.2.3 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

- 32.2.4 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.

### 32.3 Disclosure to numbering service providers

- 32.3.1 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) names of the Borrower;
- (b) country of domicile of the Borrower;
- (c) place of incorporation of the Borrower;
- (d) date of this Agreement;
- (e) Clause 38 (*Governing Law*);
- (f) the name of the Agent;
- (g) date of each amendment and restatement of this Agreement;
- (h) amount of Total Commitments;
- (i) currency of the Facility;
- (j) type of 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.

- 32.3.2 The Parties acknowledge and agree that each identification number assigned to this Agreement, the Facility and/or one 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.

32.3.3 The Borrower represents that none of the information set out in Clause 32.3.1 above is, nor will at any time be, unpublished price-sensitive information.

32.3.4 The Agent shall notify the Borrower and the other Finance Parties of:

- (a) the name of any numbering service provider appointed by the 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.

#### 32.4 Entire agreement

This Clause 32 constitutes the entire agreement between the Parties in relation to the obligations of the Finance Parties under the Finance Documents regarding Confidential Information, and supersedes any previous agreement, whether express or implied, regarding Confidential Information.

#### 32.5 Inside information

Each of the Finance Parties acknowledges that some or all of the Confidential Information is or may be price-sensitive information and that the use of such information may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse, and each of the Finance Parties undertakes not to use any Confidential Information for any unlawful purpose.

#### 32.6 Notification of disclosure

Each of the Finance Parties agrees (to the extent permitted by law and regulation) to inform the Borrower:

- 32.6.1 of the circumstances of any disclosure of Confidential Information made pursuant to Clause 32.2.2(e) (*Disclosure of Confidential Information*), 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
- 32.6.2 upon becoming aware that Confidential Information has been disclosed in breach of this Clause 32.

#### 32.7 Continuing obligations

The obligations in this Clause 32 are continuing and, in particular, shall survive and remain binding on each Finance Party for a period of 12 Months from the earlier of:

- 32.7.1 the date on which all amounts payable by the Borrower under or in connection with the Finance Documents have been paid in full and all Commitments have been cancelled or otherwise cease to be available; and
- 32.7.2 the date on which such Finance Party otherwise ceases to be a Finance Party.

### 33. CONFIDENTIALITY OF FUNDING RATES

#### 33.1 Confidentiality and disclosure

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33.1.1 The Borrower agrees to keep each Funding Rate confidential and not to disclose it to anyone, save to the extent permitted by Clause 33.1.2.

33.1.2 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 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 Borrower it is not practicable to do so in the circumstances; and
- (d) any person, with the consent of the relevant Lender.

### 33.2 Related obligations

33.2.1 The 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 Agent and the Borrower undertake not to use any Funding Rate for any unlawful purpose.

33.2.2 The 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 Clause 33.1.2 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 33.

### 33.3 No Event of Default

No Event of Default will occur under Clause 22.3 (*Breach of other obligations*) by reason only of the Borrower's failure to comply with this Clause 33.

#### 34. SEVERABILITY

If, at any time, any provision of Finance Document 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 laws of any other jurisdiction will in any way be affected or impaired.

#### 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 in person, by post or by e-mail.

36.1.2 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 Agent on or before the date it becomes a Party.

36.2.2 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: [wptreasuryconfirms@westernpower.co.uk](mailto:wptreasuryconfirms@westernpower.co.uk)

Attention: Treasury Team

36.2.3 The contact details of the Original Lender for this purpose are:

Address: 9th Floor, 250 Bishopsgate, London, EC2M 4AA (Transaction Management and Relationship Management) / Kosmo One, Tower-A, Plot No.14, 3rd Main street, Ambattur Industrial Estate, Chennai, India -600058 (Chennai Credit Operations)

Tel: +44 (0) 207 063 3180 / +44 (0) 207 672 1275 / +914466407355

E-mail: [Andreas.Argyrou@natwest.com](mailto:Andreas.Argyrou@natwest.com) / [matthew.pendrey@natwest.com](mailto:matthew.pendrey@natwest.com) / [ChennaiCreditOperationsUK@rbs.com](mailto:ChennaiCreditOperationsUK@rbs.com)

Attention: Andreas Argyrou / Matthew Pendrey / Chennai Credit Operations UK

36.2.4 The contact details of the Agent for this purpose are:



Address: 9th Floor, 250 Bishopsgate, London, EC2M 4AA

Tel: +44(0)20 7672 0704 (int. 26720704)

E-mail: francis.carey@natwest.com

Attention: Francis Carey

36.2.5 Any Party (other than the Agent) may change its contact details by giving five Business Days' notice to the Agent, and the Agent may change its contact details by giving five Business Days' notice to the other Parties.

36.2.6 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 Delivery

36.3.1 Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:

- (a) if delivered in person, when so delivered;
- (b) if by way of electronic communication, in accordance with Clause 36.5 (*Electronic Communication*); or
- (c) if by way of letter, when it has been left at the relevant address or five Business Days after being deposited in the post with postage prepaid in an envelope addressed to it at that address,

and, if a particular department or officer is specified as part of its address details provided under Clause 36.2 (*Contact details*), if addressed to that department or officer.

36.3.2 Any communication or document to be made or delivered to the Agent will be effective only when actually received by the Agent and then only if it is expressly marked for the attention of the department or officer identified with the Agent's signature below (or any substitute department or officer as the Agent shall specify for this purpose).

36.3.3 All notices from or to the Borrower shall be sent through the Agent.

36.3.4 Any communication or document which becomes effective, in accordance with Clauses 36.3.1 to 36.3.3 above, after 5pm in the place of receipt shall be deemed only to become effective on the following day.

### 36.4 Communication when the Agent is an Impaired Agent

If the Agent is an Impaired Agent the Parties may, instead of communicating with each other through the Agent, communicate with each other directly and (while the 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 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 Agent has been appointed.

### 36.5 Electronic communication

36.5.1 Any communication to be made between the 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 the 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.
- 36.5.2 Any such electronic communication as specified in Clause 36.5.1 will be effective only when actually received (or made available) in readable form.
- 36.5.3 Any electronic communication which becomes effective, in accordance with Clause 36.5.3, 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.
- 36.5.4 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 36.5.

### **37. LANGUAGE**

- 37.1.1 Any notice given under or in connection with a Finance Document must be in English.
- 37.1.2 Any other document provided under or in connection with a Finance Document must be:
- (a) in English; or
  - (b) if not in English and so required by the Agent, 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 Borrower waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

**This Agreement** has been entered into on the date stated at the beginning of this Agreement.

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**SCHEDULE 1**  
**ORIGINAL PARTIES**

Name of Original Lender	Commitment (£)	Treaty Passport scheme reference number and jurisdiction of tax residence (if applicable)
National Westminster Bank plc	50,000,000	N/A
<b>Total</b>	<b>50,000,000</b>	

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**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, and who on or prior to the Drawdown Date will, execute any Finance Document or 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 Latham & Watkins LLP, legal advisers to the Borrower addressed to the Original Lender.

**Other documents and evidence**

7. A copy of this Agreement signed by the Borrower .
  8. Evidence that all costs and expenses then due and payable from the Borrower under this Agreement have been or will be paid no later than the Drawdown Date.
  9. The Original Financial Statements.
-

### SCHEDULE 3

#### REQUEST

To: National Westminster Bank plc as Agent

From: Western Power Distribution plc

Date: [●]

**Western Power Distribution plc - £50,000,000 Facility Agreement dated [●] June 2019 (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: [●] 2019
  - (b) Amount: £50,000,000
  - (c) Interest Period: 3 months
3. We confirm that each condition precedent under the Agreement which must be satisfied on the date of this Request is so satisfied.
4. The proceeds of this Loan should be credited to [*account*] and our payment instructions are [●].
5. This Request is irrevocable.

By:

**WESTERN POWER DISTRIBUTION PLC**

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## SCHEDULE 4

### FORM OF TRANSFER CERTIFICATE

To: National Westminster Bank plc as Agent

From: [THE EXISTING LENDER] (the “Existing Lender”) and [THE NEW LENDER] (the “New Lender”)

Date: [●]

**Western Power Distribution plc - £50,000,000 Facility Agreement dated [●] June 2019 (the “Agreement”)**

We refer to the Agreement. This is a Transfer Certificate.

1. The Existing Lender and the New Lender agree to the Existing Lender transferring to the New Lender by novation, and in accordance with Clause 29.5 (*Procedure for transfer*), all of the Existing Lender’s rights and obligations under the Agreement and other Finance Documents which relate to that portion of the Existing Lender’s Commitment(s) and participations in the Loan as specified in the Schedule.
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 expressly acknowledges the limitations on the Existing Lender’s obligations set out in Clause 29.8 (*Limitation of responsibility of Existing Lenders*) of the Agreement.
5. The New Lender represents that it is:
  - (a) [a Qualifying Lender (other than a Treaty Lender);]
  - (b) [a Treaty Lender;]
  - (c) [not a Qualifying Lender].\*
6. The New Lender confirms that it is not:
  - (a) a Competitor;
  - (b) [a Distressed Debt Fund; or
  - (c) a Hedge Fund.]<sup>1</sup>
7. [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:

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<sup>1</sup>This confirmation is not required if an Even of Default is continuing.

- (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.]\*\*
8. [The New Lender confirms 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 it wishes the scheme to apply to the Agreement.]\*\*\*\*
9. 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 12.1 (*Definitions*) of the Agreement.
  - \*\*\* 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:

The Transfer Date is confirmed as [●].

[Agent]

By:

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**[NEW LENDER]**

By:



## SCHEDULE 5

### FORM OF ASSIGNMENT AGREEMENT

To: National Westminster Bank plc as Agent and Western Power Distribution plc as Borrower

From: [THE EXISTING LENDER] (the “Existing Lender”) and [THE NEW LENDER] (the “New Lender”)

Date: [●]

**Western Power Distribution plc - £50,000,000 Facility Agreement dated [●] June 2019 (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 29.6 (*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 and attention details for notices of the New Lender for the purposes of Clause 36.2 (*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 29.8 (*Limitation of Existing Lender*) of the Agreement.
7. The New Lender confirms that it is not:
  - (a) a Competitor;
  - (b) [a Distressed Debt Fund; or
  - (c) a Hedge Fund.]<sup>2</sup>
8. The New Lender represents that it is:
  - (a) [a Qualifying Lender (other than a Treaty Lender);]

<sup>2-</sup> This confirmation is not required if an Event of Default is continuing.

(b) [a Treaty Lender;]

(c) [not a Qualifying Lender].\*

9. [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.]\*\*

10. [The New Lender confirms 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 it wishes the scheme to apply to the Agreement.]\*\*\*\*

11. This Assignment Agreement acts as notice to the Borrower of the assignment referred to in this Assignment Agreement.

12. 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.

13. This Assignment Agreement and any non-contractual obligations arising out of or in connection with it are governed by English law.

14. 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 12.1 (*Definitions*) of the Agreement.

\*\*\* 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.

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**THE SCHEDULE**

**Rights to be assigned and obligations to be released and undertaken**

*[insert relevant details]*

*[Facility office address and attention details for notices and account details for payments]*

[Existing Lender]

[New Lender]

By:

By:

This Assignment Agreement is accepted as an Assignment Agreement for the purposes of the Agreement by the Agent and the Transfer Date is confirmed as [●].

Signature of this Assignment Agreement by the Agent constitutes confirmation by the Agent of receipt of notice of the assignment referred to herein, which notice the Agent receives on behalf of each Finance Party.

[Agent]

By:

---

## SCHEDULE 6

### FORM OF COMPLIANCE CERTIFICATE

To: National Westminster Bank plc as Agent

From: Western Power Distribution plc

Date: [●]

**Western Power Distribution plc - £50,000,000 Facility Agreement dated [●] June 2019 (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 Calculation Period ending on such date was [●] and Interest Payable was [●], therefore the ratio of Consolidated EBITDA to Interest Payable for the Calculation 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*].]<sup>3</sup>

#### WESTERN POWER DISTRIBUTION PLC

By:

Director

Director

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<sup>3</sup>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.

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## SCHEDULE 7

### TIMETABLES

Delivery of a duly completed Request in accordance with Clause D-1

5.1 (*Giving of Requests*)

10:00 a.m.

LIBOR is fixed

Quotation Day as of 11.00 a.m.

Agent notifies the Lenders of the Loan in accordance with Clause D-1

5.4 (*Advance of Loan*)

4:00 p.m.

Reference Bank Rate calculated by reference to available Quotation Day as of 11.30 a.m.  
quotations in accordance with Clause 10.2 (*Calculation of  
Reference Bank Rate*)

“D” = date of drawdown or, if applicable, in the case of a Loan that has already been borrowed, the first day of the relevant Interest Period for that Loan.

“D- X”= Business Days prior to date of drawdown.

**SCHEDULE 8**  
**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 “**Borrower**”);
- (2) **[SUBORDINATED CREDITOR]** (the “**Subordinated Creditor**”); and
- (3) **NATIONAL WESTMINSTER BANK PLC**, as Agent acting on behalf of the Lenders (each as defined below) (the “**Agent**”).

**1. INTERPRETATION**

**1.1 Definitions**

In this Deed:

**Agreement** means the £50,000,000 facility agreement dated [●] June 2019 between, among others, Western Power Distribution plc as the Borrower and National Westminster Bank plc as 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**, on or prior to the date of such payment, the Borrower has delivered a certificate to the Agent confirming that, taking into account such payment, Total Net Debt will not exceed 85% and the Borrower will be in compliance with its obligations under Clause 20.3 (*Interest Cover*), in each case on each of the two immediately succeeding Calculation Dates.

**Senior Debt** means any present or future liability (actual or contingent) payable or owing by the Borrower 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 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 Borrower 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 Borrower

The Borrower 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

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 Borrower 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 Borrower 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 Borrower 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 Agent (acting on behalf of the Lenders) and pay them immediately to the Agent (acting on behalf of the Lenders) to be applied against the Senior Debt.

2.3.5 The Subordinated Creditor and the Borrower hereby agree for the benefit of the 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 Borrower or the proceeds thereof, to creditors of the Borrower, by reason of the liquidation, dissolution or other winding-up of the Borrower 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 Borrower, or the Borrower 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:

- (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 Borrower 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 Agent (acting on behalf of the Lenders) to be applied against the Senior Debt;
- (d) the Subordinated Creditor acknowledges the rights of the 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 Agent's own name or otherwise, as the 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 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 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 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 Borrower.
- 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 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 Agent (acting on behalf of the Lenders) may, at its discretion, increase the facility made available to the Borrower and make further advances to the Borrower, 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 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**

The 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.

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## Annex 1

### Form of Subordinated Creditor Accession Deed

To: **NATIONAL WESTMINSTER BANK PLC**, as Agent

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, National Westminster Bank plc as 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**  
**Subordination Deed**

**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: [•]  
Phone number: [•]

E-mail [•]  
Attention:: [•]

**Agent**

EXECUTED as a DEED )  
by [•] )  
acting by ) \_\_\_\_\_  
Director

In the presence of:

Witness's Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Facility Agent contact details:

Address: [•]  
Phone number: [•]

E-mail [•]  
Attention:: [•]

**SIGNATORIES**

**Borrower**

EXECUTED by )  
**WESTERN POWER DISTRIBUTION PLC** )  
acting by Ian Robert Williams )

*[Signed by Ian Robert Williams]*  
Director

*[Signature Page to the £50,000,000 Facility Agreement]*



**Original Lender**

EXECUTED by  
**NATIONAL WESTMINSTER BANK PLC**  
acting by Peter Dooley, Managing Director

)  
)  
)

*[Signed by Peter Dooley]*

*[Signature Page to the £50,000,000 Facility Agreement]*

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**AGENT**

EXECUTED by  
**NATIONAL WESTMINSTER BANK PLC**  
acting by Peter Dooley, Managing Director

)  
)  
)

*[Signed by Peter Dooley]*

*[Signature Page to the £50,000,000 Facility Agreement]*

CERTIFICATION

I, WILLIAM H. SPENCE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ William H. Spence

William H. Spence  
Chairman and Chief Executive Officer  
(Principal Executive Officer)  
PPL Corporation

CERTIFICATION

I, JOSEPH P. BERGSTEIN, JR., certify that:

1. I have reviewed this 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 6, 2019

/s/ Joseph P. Bergstein, Jr.

Joseph P. Bergstein, Jr.  
 Senior Vice President and Chief Financial Officer  
 (Principal Financial Officer)  
 PPL Corporation

CERTIFICATION

I, GREGORY N. DUDKIN, certify that:

1. I have reviewed this 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 6, 2019

/s/ Gregory N. Dudkin

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Gregory N. Dudkin  
 President  
 (Principal Executive Officer)  
 PPL Electric Utilities Corporation

CERTIFICATION

I, STEPHEN K. BREININGER, 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 6, 2019

/s/ Stephen K. Breininger

Stephen K. Breininger  
 Vice President-Finance and Regulatory Affairs and Controller  
 (Principal Financial Officer)  
 PPL Electric Utilities Corporation

CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this 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 6, 2019

/s/ Paul W. Thompson

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Paul W. Thompson  
 Chairman of the Board, Chief Executive Officer and President  
 (Principal Executive Officer)  
 LG&E and KU Energy LLC

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Kent W. Blake

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Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer)  
LG&E and KU Energy LLC



CERTIFICATION

I, PAUL W. THOMPSON, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Paul W. Thompson

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 Paul W. Thompson  
 Chairman of the Board, Chief Executive Officer and President  
 (Principal Executive Officer)  
 Louisville Gas and Electric Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 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 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 6, 2019

/s/ Paul W. Thompson

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Paul W. Thompson  
 Chairman of the Board, Chief Executive Officer and President  
 (Principal Executive Officer)  
 Kentucky Utilities Company

CERTIFICATION

I, KENT W. BLAKE, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 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-Q FOR THE QUARTER ENDED JUNE 30, 2019

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, William H. Spence, the Principal Executive Officer of the Company, and Joseph P. Bergstein, Jr., the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2019

/s/ William H. Spence

William H. Spence  
Chairman and Chief Executive Officer  
(Principal Executive Officer)  
PPL Corporation

/s/ Joseph P. Bergstein, Jr.

Joseph P. Bergstein, Jr.  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)  
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2019

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Gregory N. Dudkin, the Principal Executive Officer of the Company, and Stephen K. Breininger, the Principal Financial Officer 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 6, 2019

/s/ Gregory N. Dudkin

Gregory N. Dudkin

President

(Principal Executive Officer)

PPL Electric Utilities Corporation

/s/ Stephen K. Breininger

Stephen K. Breininger

Vice President-Finance and Regulatory Affairs and Controller

(Principal Financial Officer)

PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2019

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, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2019

/s/ Paul W. Thompson

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Paul W. Thompson  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)  
LG&E and KU Energy LLC

/s/ Kent W. Blake

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Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer)  
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002  
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2019

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 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-Q FOR THE QUARTER ENDED JUNE 30, 2019

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), we, Paul W. Thompson, the Principal Executive Officer of the Company, and Kent W. Blake, the Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 6, 2019

/s/ Paul W. Thompson

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Paul W. Thompson  
Chairman of the Board, Chief Executive Officer and President  
(Principal Executive Officer)  
Kentucky Utilities Company

/s/ Kent W. Blake

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Kent W. Blake  
Chief Financial Officer  
(Principal Financial Officer)  
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.